

CITY OF KING COVE, ALASKA

Basic Financial Statements, Required Supplementary Information,
Additional Supplementary Information and Compliance Reports

Year Ended June 30, 2016

CITY OF KING COVE, ALASKA

Basic Financial Statements, Required Supplementary Information, Additional
Supplementary Information and Compliance Reports

Year Ended June 30, 2016

CITY OF KING COVE, ALASKA

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
Independent Auditor's Report		1-3
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	A-1	4
Statement of Activities	B-1	5
Fund Financial Statements:		
Balance Sheet - Governmental Funds	C-1	6
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position	C-2	7
Statement of Revenues, Expenditures and		
Changes in Fund Balances (Deficit) - Governmental Funds	D-1	8
Reconciliation of the Statement of Revenues,		
Expenditures and Changes in Fund Balances		
of Governmental Funds to the Statement of Activities	D-2	9
Schedules of Revenues, Expenditures, and Changes in		
Fund Balance – Budget and Actual:		
General Fund	E-1	10
Water and Sewer Special Revenue Fund	E-2	11
Proprietary Funds:		
Statement of Net Position	F-1	12
Statement of Revenues, Expenses and Changes in Net Position	F-2	13
Statement of Cash Flows	F-3	14
Notes to Basic Financial Statements		15-41
Required Supplementary Information		
Public Employees' Retirement System:		
Schedule of the City's Proportionate Share of the Net Pension Liability	G-1	42
Schedule of the City's Contributions	G-2	43

CITY OF KING COVE, ALASKA

Table of Contents, Continued

	<u>Exhibit</u>	<u>Page</u>
Additional Supplementary Information		
General Fund:		
Balance Sheet	H-1	44
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	H-2	45-49
Schedule of Revenues, Expenditures and Changes in Fund Balance (Deficit) – Budget and Actual:		
Water and Sewer Special Revenue Fund	H-3	50-51
Proprietary Funds:		
Electric Fund:		
Statement of Net Position	I-1	52
Statement of Revenues, Expenses and Changes In Net Position	I-2	53
Statement of Cash Flows	I-3	54
Harbor and Port Fund:		
Statement of Net Position	J-1	55
Statement of Revenues, Expenses and Changes In Net Position	J-2	56-57
Statement of Cash Flows	J-3	58
Nonmajor Governmental Funds:		
Combining Balance Sheet	K-1	59
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	K-2	60
Schedule of Revenues, Expenditures and Changes in Fund Balance (Deficit) – Budget and Actual:		
Solid Waste Collection Special Revenue Fund	K-3	61
Housing and Community Projects Special Revenue Fund	K-4	62
Permanent Fund Special Revenue Fund	K-5	63
General Capital Projects Fund	K-6	64
Vehicle and Machinery Replacement Capital Project Fund	K-7	65
City Fuel Internal Service Fund:		
Statement of Net Position	L-1	66
Statement of Revenues, Expenses and Changes In Net Position	L-2	67
Statement of Cash Flows	L-3	68
State Schedule of Financial Assistance	M-1	69
Notes to the Schedule of State Financial Assistance		70

CITY OF KING COVE, ALASKA

Table of Contents, Continued

	<u>Page</u>
Compliance Reports:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	71-72
Report on Compliance For Each Major State Program and Report on Internal Control Over Compliance as Required by the <i>State of Alaska Audit Guide and Compliance Supplement for State Single Audits</i>	73-75
State Schedule of Findings and Questioned Costs	76-84
Corrective Action Plan	85-87

Independent Auditor's Report

Members of the City Council
City of King Cove
King Cove, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King Cove, Alaska, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of King Cove's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King Cove, Alaska, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund. The Water and Sewer Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the City's Proportionate Share of the Net Pension Liability and Schedule of the City's Contributions to the Public Employees' Retirement System on pages 42 to 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The information listed in the Table of Contents as "Additional Supplementary Information," which includes combining and individual major and nonmajor schedules and statements, and the Schedule of State Financial Assistance, which is presented as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Additional Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Additional Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2017, on our consideration of City of King Cove's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matter. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of King Cove's internal control over financial reporting and compliance.

Altman, Rogers & Co.

Anchorage, Alaska
March 16, 2017

CITY OF KING COVE, ALASKA

Statement of Net Position

June 30, 2016

<u>Assets and Deferred Outflows of Resources</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,212,040	-	1,212,040
Receivables:			
Accounts	874,646	122,814	997,460
Sales taxes	232,890	-	232,890
Grants	-	526,095	526,095
Other	2,430	-	2,430
Allowance for doubtful accounts	-	(9,489)	(9,489)
Internal balances	953,467	(953,467)	-
Inventories	123,712	-	123,712
Investment in Southwest Governments, LLC	118,136	-	118,136
Restricted cash - bond reserves and unspent bond proceeds	-	274,315	274,315
Capital assets, not being depreciated	660,123	5,126,377	5,786,500
Other capital assets, net of accumulated depreciation	19,996,779	21,078,052	41,074,831
Total assets	24,174,223	26,164,697	50,338,920
Deferred outflows of resources - Pension deferrals	475,733	173,950	649,683
Total assets and deferred outflows of resources	\$ 24,649,956	26,338,647	50,988,603
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>			
Accounts payable	44,751	55,834	100,585
Accrued payroll and related liabilities	115,826	22,491	138,317
Customer deposits	-	7,534	7,534
Accrued interest payable	10,056	32,029	42,085
Noncurrent liabilities:			
Due within one year:			
Accrued leave	-	14,670	14,670
Bonds	-	170,000	170,000
Loans	62,334	-	62,334
Notes	17,695	-	17,695
Due in more than one year:			
Accrued leave	119,433	-	119,433
Bonds	-	2,820,000	2,820,000
Loans	1,192,320	-	1,192,320
Notes	27,847	-	27,847
Landfill closure	1,005,078	-	1,005,078
Unamortized bond premium	-	203,118	203,118
Net pension liability	1,766,054	645,752	2,411,806
Total liabilities	4,361,394	3,971,428	8,332,822
Deferred inflows of resources - Pension deferrals	31,440	11,496	42,936
Net position:			
Net investment in capital assets	19,356,706	23,011,311	42,368,017
Unrestricted	900,416	(655,588)	244,828
Total net position	20,257,122	22,355,723	42,612,845
Total liabilities, deferred inflows of resources and net position	\$ 24,649,956	26,338,647	50,988,603

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Statement of Activities

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business type Activities	Total
Governmental activities:							
General government	\$ 1,143,834	71,496	730,677	-	(341,661)	-	(341,661)
Public safety	609,163	-	22,484	-	(586,679)	-	(586,679)
Public works	1,271,513	-	216,999	-	(1,054,514)	-	(1,054,514)
Community services	225,694	-	78	-	(225,616)	-	(225,616)
Water and sewer	659,569	464,757	16,773	-	(178,039)	-	(178,039)
Solid waste	118,310	115,300	2,356	-	(654)	-	(654)
Total governmental activities	4,028,083	651,553	989,367	-	(2,387,163)	-	(2,387,163)
Business-type activities:							
Electric utility	1,189,090	1,203,903	15,267	3,013,218	-	3,043,298	3,043,298
Harbor and port	928,822	367,182	19,523	-	-	(542,117)	(542,117)
Total business type activities	2,117,912	1,571,085	34,790	3,013,218	-	2,501,181	2,501,181
Total	\$ 6,145,995	2,222,638	1,024,157	3,013,218	(2,387,163)	2,501,181	114,018
General revenues:							
Sales and business impact taxes					2,112,209	-	2,112,209
Grants and entitlements not restricted to a specific purpose					586,839	-	586,839
Other					14,172	-	14,172
Transfers					(276,748)	276,748	-
Total general revenues and transfers					2,436,472	276,748	2,713,220
Change in net position					49,309	2,777,929	2,827,238
Net position, at beginning of year					20,207,813	19,577,794	39,785,607
Net position, at end of year					20,257,122	22,355,723	42,612,845

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA
Balance Sheet - Governmental Funds
Year Ended June 30, 2016

<u>Assets</u>	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Water and Sewer Special Revenue</u>	<u>Nonmajor Funds</u>	
Cash and cash equivalents	\$ 762,469	-	449,571	1,212,040
Receivables:				
Accounts	610,236	108,924	155,486	874,646
Sales taxes	232,890	-	-	232,890
Other	2,430	-	-	2,430
Due from other funds	506,128	-	848,717	1,354,845
Advance to City Fuel Internal Service Fund	69,944	-	-	69,944
Advances to other funds	953,467	-	-	953,467
Investment in Southwest Governments, LLC	118,136	-	-	118,136
Total assets	\$ 3,255,700	108,924	1,453,774	4,818,398
<u>Liabilities and Fund Balances (Deficits)</u>				
Liabilities:				
Accounts payable	17,331	-	27,420	44,751
Accrued payroll and related liabilities	109,000	3,453	3,292	115,745
Due to other funds	848,717	440,247	65,881	1,354,845
Total liabilities	975,048	443,700	96,593	1,515,341
Fund balances (deficit):				
Nonspendable	1,071,603	-	-	1,071,603
Committed	-	-	1,197,910	1,197,910
Assigned	-	-	159,271	159,271
Unassigned (deficit)	1,209,049	(334,776)	-	874,273
Total fund balances (deficit)	2,280,652	(334,776)	1,357,181	3,303,057
Total liabilities and fund balances	\$ 3,255,700	108,924	1,453,774	4,818,398

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position

June 30, 2016

Total fund balances for governmental funds	\$	3,303,057
Total net position reported for governmental activities in the Statement of Net Position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
These assets, net of accumulated depreciation are:		
Land	420,390	
Construction in progress	239,733	
Buildings	4,239,408	
Improvements other than buildings	21,712,923	
Equipment	1,572,717	
Accumulated depreciation	(8,051,166)	
Total capital assets, net of depreciation		20,134,005
Long-term liabilities, including loans payable and accrued leave are not due and payable in the current period and, therefore, are not reported as fund liabilities:		
Loans payable	(1,234,495)	
Note payable	(45,542)	
Landfill closure costs payable	(1,005,078)	
Accrued interest payable	(10,056)	
Accrued leave	(119,433)	
Total long term liabilities		(2,414,604)
The internal service fund is used by management to charge the cost of certain activities to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net position		
		556,425
Pension related assets in the current fiscal year are presented as deferred outflows of resources		
		475,733
Pension related liabilities in the current fiscal year are presented as deferred inflows of resources		
		(31,440)
Proportionate share of the collective net pension liability		(1,766,054)
Total net position of governmental activities	\$	<u>20,257,122</u>

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)

Year Ended June 30, 2016

	Major Funds			Total Governmental Funds
	General	Water and Sewer Special Revenue	Nonmajor Funds	
Revenues:				
Sales and business impact taxes	\$ 2,112,209	-	-	2,112,209
Intergovernmental:				
Aleutians East Borough	709,023	-	-	709,023
Federal sources	57,463	-	-	57,463
State sources	618,105	11,162	140,561	769,828
Charges for services	71,496	551,572	128,646	751,714
Other	13,614	150	466	14,230
Total revenues	<u>3,581,910</u>	<u>562,884</u>	<u>269,673</u>	<u>4,414,467</u>
Expenditures:				
Current:				
General government	714,148	-	-	714,148
Public safety	565,872	-	-	565,872
Public works	536,925	-	318,802	855,727
Community services	145,623	-	-	145,623
Water and sewer	-	319,188	-	319,188
Solid waste	-	-	113,343	113,343
Other	278,839	-	-	278,839
Debt service:				
Principal	-	40,992	15,624	56,616
Interest	-	51,740	6,085	57,825
Total expenditures	<u>2,241,407</u>	<u>411,920</u>	<u>453,854</u>	<u>3,107,181</u>
Excess (deficiency) of revenues over (under) expenditures	1,340,503	150,964	(184,181)	1,307,286
Other financing sources (uses):				
Transfers in	60,000	82,235	470,000	612,235
Transfers out	(923,400)	-	-	(923,400)
Net other financing sources (uses)	<u>(863,400)</u>	<u>82,235</u>	<u>470,000</u>	<u>(311,165)</u>
Net change in fund balances	477,103	233,199	285,819	996,121
Beginning fund balances (deficit)	<u>1,803,549</u>	<u>(567,975)</u>	<u>1,071,362</u>	<u>2,306,936</u>
Ending fund balances (deficit)	\$ <u><u>2,280,652</u></u>	<u><u>(334,776)</u></u>	<u><u>1,357,181</u></u>	<u><u>3,303,057</u></u>

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Reconciliation of Change in Fund Balances of Governmental Funds
to Statement of Activities

Year Ended June 30, 2016

Net change in fund balances - total governmental funds	\$	996,121
The change in net position reported for governmental activities in the Statement of Activities is different because:		
Certain revenues in the statement of activities do not provide current financial resources and are reported as unearned or unavailable revenues in the funds:		
Water & Sewer user fees	(86,815)	
Solid Waste collection fees	<u>(13,404)</u>	(100,219)
Government funds report capital outlays as expenditures. However on the Statement of Activities, depreciation expense is recognized to allocate the cost of these items over their estimated useful lives.		
Capital outlay	336,087	
Depreciation expense	<u>(772,083)</u>	(435,996)
Internal service funds are used by management to charge cost of certain activities to individual funds. The net loss of the internal service fund is reported within the governmental activities.		(8,046)
Transfer of funds from General Fund into Internal Service Fund to cover deficit		34,417
The issuance of long-term deb provides current financial resources to governmental funds, while the repayment of of the principal of the long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position This is the amount of principal paid on long-term debt.		
Principal repayments		56,616
The governmental fund statements do not reflect the increase in long-term liabilities that are not to be paid with current financial resources. This is the amount of increase in the landfill closure liability.		(35,896)
Some expenses reporte in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the change in:		
Accrued leave		18,666
Proportionate share of the collective net pension liability		(930,394)
Changes in deferred outflows and inflows of resources are the result of timing differences in the actuarial report and adjustments to reflect employer and non-employer contributions based on the measurement date of the liability.		<u>454,040</u>
Change in net position of governmental activities	\$	<u>49,309</u>

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

General Fund

Statement of Revenues, Expenditures and
Changes in Fund Balance - Original and Final Budget and Actual

Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 1,750,000	1,950,000	2,112,209	162,209
Intergovernmental:				
Aleutians East Borough	700,000	715,000	709,023	(5,977)
Federal sources	30,000	57,462	57,463	1
State sources	704,000	633,398	618,105	(15,293)
Charges for services	26,000	31,645	71,496	39,851
Other	10,000	25,439	13,614	(11,825)
Total revenues	<u>3,220,000</u>	<u>3,412,944</u>	<u>3,581,910</u>	<u>168,966</u>
Expenditures:				
General government	709,882	732,156	714,148	18,008
Public safety	588,378	597,218	565,872	31,346
Public works	512,269	524,469	536,925	(12,456)
Community services	175,102	143,899	145,623	(1,724)
Other	163,100	287,601	278,839	8,762
Total expenditures	<u>2,148,731</u>	<u>2,285,343</u>	<u>2,241,407</u>	<u>43,936</u>
Excess of revenues over expenditures	1,071,269	1,127,601	1,340,503	212,902
Other financing sources (uses):				
Transfers in	60,000	60,000	60,000	-
Transfers out	<u>(822,900)</u>	<u>(925,400)</u>	<u>(923,400)</u>	<u>2,000</u>
Net other financing sources (uses)	<u>(762,900)</u>	<u>(865,400)</u>	<u>(863,400)</u>	<u>2,000</u>
Net change in fund balance	\$ <u>308,369</u>	<u>262,201</u>	477,103	<u>214,902</u>
Beginning fund balances			<u>1,803,549</u>	
Ending fund balances			\$ <u>2,280,652</u>	

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Water and Sewer Special Revenue Fund

Statement of Revenues, Expenditures and
Changes in Fund Balance (Deficit) - Original and Final Budget and Actual

Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 402,100	480,690	551,572	70,882
Intergovernmental - state sources	31,400	20,400	11,162	(9,238)
Other		-	150	150
Total revenues	<u>433,500</u>	<u>501,090</u>	<u>562,884</u>	<u>61,794</u>
Expenditures:				
Current:				
Water	258,497	262,641	248,458	14,183
Sewer	68,337	75,712	70,730	4,982
Debt service:				
Principal	33,000	33,000	40,992	(7,992)
Interest	59,000	59,000	51,740	7,260
Total expenditures	<u>418,834</u>	<u>430,353</u>	<u>411,920</u>	<u>18,433</u>
Excess of revenues over expenditures	14,666	70,737	150,964	80,227
Other financing sources - transfers in	<u>20,000</u>	<u>20,000</u>	<u>82,235</u>	<u>62,235</u>
Net change in deficit	\$ <u><u>34,666</u></u>	<u><u>90,737</u></u>	233,199	<u><u>142,462</u></u>
Beginning fund balance (deficit)			<u>(567,975)</u>	
Ending fund balance (deficit)			\$ <u><u>(334,776)</u></u>	

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Proprietary Funds

Statement of Net Position

June 30, 2016

	Enterprise Funds		Total Enterprise Funds	Internal Service Fund
<u>Assets and Deferred Outflows of Resources</u>	Electric	Harbor and Port		City Fuel
Current assets:				
Receivables:				
Accounts	\$ 26,175	96,639	122,814	-
Grants	526,095	-	526,095	-
Allowance for doubtful accounts	(4,506)	(4,983)	(9,489)	-
Inventories	-	-	-	123,712
Total current assets	547,764	91,656	639,420	123,712
Restricted cash - bond reserves	165,813	108,502	274,315	-
Property, plant and equipment:				
Construction in progress	5,078,005	-	5,078,005	-
Land	48,372	-	48,372	-
Infrastructure	3,955,382	21,720,359	25,675,741	871,489
Improvements	723,045	-	723,045	-
Buildings	2,203,494	355,860	2,559,354	-
Equipment	5,009,193	932,137	5,941,330	-
Total property, plant and equipment	17,017,491	23,008,356	40,025,847	871,489
Less accumulated depreciation	(6,204,167)	(7,617,251)	(13,821,418)	(348,592)
Net property, plant and equipment	10,813,324	15,391,105	26,204,429	522,897
Deferred outflows of resources -				
Pension deferrals	95,224	78,726	173,950	-
Total assets and deferred outflows of resources	\$ 11,622,125	15,669,989	27,292,114	646,609
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>				
Current liabilities:				
Accounts payable	\$ 53,638	2,196	55,834	-
Accrued payroll and related liabilities	10,167	12,324	22,491	81
Customer deposits	7,534	-	7,534	-
Accrued interest payable	15,568	16,461	32,029	-
Accrued leave	7,014	7,656	14,670	-
Current portion of revenue bonds	115,000	55,000	170,000	-
Loans payable	-	-	-	20,159
Total current liabilities	208,921	93,637	302,558	20,240
Noncurrent liabilities:				
Advances from other funds	753,255	200,212	953,467	69,944
Revenue bonds	1,875,000	945,000	2,820,000	-
Unamortized bond premium	186,095	17,023	203,118	-
Net pension liability	353,498	292,254	645,752	-
Total noncurrent liabilities	3,167,848	1,454,489	4,622,337	69,944
Deferred inflows of resources -				
Pension deferrals	6,293	5,203	11,496	-
Net position:				
Net investment in capital assets	8,637,229	14,374,082	23,011,311	522,897
Unrestricted (deficit)	(398,166)	(257,422)	(655,588)	33,528
Total net position	8,239,063	14,116,660	22,355,723	556,425
Total liabilities, deferred inflows of resources and net position	\$ 11,622,125	15,669,989	27,292,114	646,609

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Proprietary Funds

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2016

	Enterprise Funds			Internal Service Fund
	Electric	Harbor and Port	Total Enterprise Funds	City Fuel
Operating revenues - charges for services	\$ 1,203,903	367,182	1,571,085	359,324
Operating expenses:				
Salaries and benefits	346,439	288,744	635,183	20,606
Other purchased services and supplies	389,085	111,150	500,235	298,834
Depreciation	329,567	478,459	808,026	43,574
Total operating expenses	1,065,091	878,353	1,943,444	363,014
Income (loss) from operations	138,812	(511,171)	(372,359)	(3,690)
Nonoperating revenues (expenses):				
Interest expense	(72,848)	(49,769)	(122,617)	(4,356)
Grant revenue	2,549,596	-	2,549,596	-
Bond issuance costs	-	(700)	(700)	-
Senior power subsidy	(51,151)	-	(51,151)	-
Other contributions	463,622	-	463,622	-
Interest rate subsidy	-	6,901	6,901	-
State PERS relief	15,267	12,622	27,889	-
Net nonoperating revenues (expenses)	2,904,486	(30,946)	2,873,540	(4,356)
Income (loss) before transfers	3,043,298	(542,117)	2,501,181	(8,046)
Other financing sources (uses):				
Transfers in	-	386,748	386,748	34,417
Transfers out	(90,000)	(20,000)	(110,000)	-
Total other financing sources (uses)	(90,000)	366,748	276,748	34,417
Change in net position	2,953,298	(175,369)	2,777,929	26,371
Beginning net position	5,285,765	14,292,029	19,577,794	530,054
Ending net position	\$ 8,239,063	14,116,660	22,355,723	556,425

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Proprietary Funds

Statement of Cash Flows

Year Ended June 30, 2016

	Enterprise Funds			Internal Service Fund
	Electric	Harbor and Port	Total Enterprise Funds	City Fuel
Cash flows from operating activities:				
Receipts from customers and users	\$ 1,225,108	365,572	1,590,680	359,324
Payments to suppliers	(349,255)	(109,720)	(458,975)	(325,229)
Payments to employees	(230,537)	(235,812)	(466,349)	(20,525)
Net cash flows provided by operating activities	645,316	20,040	665,356	13,570
Cash flows from noncapital financing activities:				
Senior power subsidy	(51,151)	-	(51,151)	-
Increase (decrease) in advance from other funds	415,967	(266,912)	149,055	106,805
Fuel loan proceeds	-	-	-	(150,436)
Interest expense	-	-	-	(4,356)
Interest rate subsidy	-	6,901	6,901	-
Transfers in	-	386,748	386,748	-
Transfers out	(90,000)	(20,000)	(110,000)	34,417
Net cash flows provided by noncapital financing activities	274,816	106,737	381,553	(13,570)
Cash flows from capital and related financing activities:				
Bond issuance costs	-	(700)	(700)	-
Purchase of capital assets	(4,301,946)	(24,655)	(4,326,601)	-
Capital contributions received	2,573,537	-	2,573,537	-
Proceeds from issuance of debt	980,000	-	980,000	-
Principal payments on long-term debt	(115,000)	(50,000)	(165,000)	-
Unamortized bond discount	83,840	-	83,840	-
Interest payments on long-term debt	(61,084)	(51,404)	(112,488)	-
Net cash flows (used) by capital and related financing activities	(840,653)	(126,759)	(967,412)	-
Net increase in cash and cash equivalents	79,479	18	79,497	-
Beginning cash and cash equivalents	86,334	108,484	194,818	-
Ending cash and cash equivalents	\$ 165,813	108,502	274,315	-
Reconciliation of loss from operations to net cash provided (used) by operating activities:				
Income (loss) from operations	\$ 138,812	(511,171)	(372,359)	(3,690)
Adjustments to reconcile loss from operations to net cash flows from operating activities:				
Depreciation	329,567	478,459	808,026	43,574
Pension expense	113,134	52,746	165,880	-
(Increase) decrease in assets:				
Accounts receivable (net)	18,464	(1,610)	16,854	-
Inventories	-	-	-	(26,395)
Increase (decrease) in liabilities:				
Accounts payable	39,830	1,430	41,260	-
Accrued payroll and related liabilities	(91)	1,924	1,833	81
Customer deposits	2,741	-	2,741	-
Accrued leave	2,859	(1,738)	1,121	-
Net cash flows provided (used) by operating activities	\$ 645,316	20,040	665,356	13,570

See accompanying notes to basic financial statements.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements

Year Ended June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of King Cove was incorporated in 1949 under the laws of the State of Alaska as a first-class city. The City operates under a council-administrator form of government and provides a full range of services to its citizens including public safety, streets, health and social services, electric, water and sewer, boat harbor, community projects, and general administration.

The financial statements included in this report are for the City of King Cove only. There are no component units for which the City of King Cove is financially accountable, nor do any special financial relationships exist between the City and any other entity.

The accounting policies of the City of King Cove conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. In general, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) fees, fines and charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensate absences are recorded only to the extent they have matured.

Sales and business impact taxes, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when received by the government.

The City reports the following major funds:

Major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be reported in another fund.

The *Water and Sewer Special Revenue Fund* accounts for the operation of the water and sewer system.

Major proprietary funds:

The *Electric Enterprise Fund* is used to account for the operations of the electric utility.

The *Harbor and Port Enterprise Fund* is used to account for the operations of the harbor and port.

The *City Fuel Sales Internal Service Fund* is used to account for fuel purchases and sales which is predominately sold to the other proprietary funds.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are allocated administration fees and charges between the enterprise funds and the various other funds and departments. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. In addition, general revenues include all taxes, investment income, and State entitlement revenues.

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Central Treasury

A central treasury is used to account for cash from all funds of the City to maximize interest income.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary funds consider all cash accounts to be cash and cash equivalents. The central treasury, which holds cash and investments, is used essentially as a cash management pool by each fund.

F. Inventories

Inventories are valued at cost (first-in, first-out). The cost is recorded as an expenditure or expense at the time individual inventory items are consumed.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “due to / from other funds” (i.e., the current portion of interfund loans) or “advances to / from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to / from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

H. Grants and Other Intergovernmental Revenues

In applying the measurable and available concepts to grants and intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts are considered “earned”; therefore, revenues are recognized based upon expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the measurable and available criteria are met.

I. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

J. Compensated Absences

The City allows employees to accumulate earned but unused vacation and sick leave benefits. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental fund financial statements only if they have matured (e.g. the employee has terminated employment).

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. As a phase 3 government for GASB Statement 34 purposes, the City records additions to infrastructure capital assets (e.g. roads and streets) prospectively from the GASB Statement 34 implementation date, which was June 30, 2004. Capital assets are defined by the City as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

Buildings	20-50 years
Improvements other than buildings	20-50 years
Service Lines	20 years
Machinery and equipment	3-20 years

L. Long-Term Debt

In the government-wide and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

M. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of the resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form- prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of fund balances comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Council—the City’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The City Council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

N. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds. Any encumbrances outstanding at year end are reported as appropriate constraints of fund balances if they meet the definitions and criteria as outlined above.

O. Unearned Grant Revenue

Amounts received from grantor agencies, which are restricted as to use and have not been expended for the intended use are shown as unearned revenue.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

P. Deferred Inflows/Outflows of Resources

The City follows the provisions of GASB Statement number 63, where applicable. Deferred outflows of resources represent the consumption of the government's net position or fund balance that is applicable to a future reporting period. Deferred inflow of resources represents the acquisition of net position or fund balance that is applicable to a future reporting period. Revenues that have been earned but are not yet available in the governmental funds are now reported as deferred inflows.

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

R. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following financial instruments are recorded at fair value or at amounts that approximate fair value: (1) cash and cash equivalents, (2) receivables, net, (3) certain other current assets, (4) accounts payable, and (5) other current liabilities. The carrying amounts reported in the balance sheet and Statement of Net Position for the above financial instruments closely approximates their fair value due to the short-term nature of these assets and liabilities, except for the City's investments. The carrying amount of the City's investments are determined based on quoted market prices.

The carrying amount of notes receivable and notes payable approximates fair value for those financial instruments with interest at variable rates, as those rates approximate current market rates for notes with similar maturities and credit quality.

S. Comparative Data

Comparative data for the prior year have been presented in some of the accompanying financial statements in order to provide an understanding of changes in the City's financial operations.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to May 1, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The City Administrator is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures of any fund or department within a fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Appropriations for these funds lapse at year end to the extent they have not been expended or encumbered.
6. Budgets for governmental fund types are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

B. Deficits

The following funds had deficit positions in fund balance as of June 30, 2016:

Special Revenue Funds:	
Water and Sewer	\$ (334,776)

In addition the following proprietary funds had deficit equity in the unrestricted category:

Electric Enterprise Fund	\$ (398,166)
Harbor and Port Enterprise Fund	(257,422)

III. CASH AND CASH EQUIVALENTS

Except for the Permanent Fund, all cash is maintained in a central treasury and is available for use by all funds. Each fund's portion of the central treasury is displayed on the balance sheet as "cash and cash equivalents" or in the case of "negative cash," is included in "due to other funds" or "advances to other funds." All of the City's cash is held in the form of demand accounts including checking, savings, short-term certificates of deposit, and overnight repurchase agreements held by commercial banks. "Pooled investments" are entirely comprised of money-market cash equivalents.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Investment policy

The investment policy authorizes the City to invest in certificates of deposit, U.S. Treasury securities, government bonds and notes, money markets, mutual funds, and an investment pool authorized by Alaska Statutes. Investments are carried at fair value.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value changes in market interest rates.

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Pooled investments are invested with the Alaska Municipal League Investment Pool, Inc. (AMLIP). The AMLIP is an external investment pool which is rated AAA for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the Pool. The law sets forth numerous requirements regarding authorized investments and reporting. The share value of investments in the AMLIP is approximately equal to fair value. To obtain a copy of AMLIP's financial statements contact Key Trust of Alaska at 101 West Benson Blvd., Room 302, Anchorage, Alaska 99503.

Custodial credit risk

Custodial credit risk is that in the event of a bank failure, the City's deposits may not be returned to it. To limit credit risk, City policy requires that all deposits be insured or covered by collateralization agreements.

IV. INVESTMENT IN SOUTHWEST GOVERNMENTS, LLC

The City purchased a 10 percent ownership in Southwest Governments, LLC, an investment company formed to buy an office building in Anchorage, Alaska. The office building was purchased in May 2002 and is currently rented to outside parties, including the group that owns Southwest Governments, LLC. The City's investment in Southwest Governments, LLC, is recorded on the cost method.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

V. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

Governmental Activities

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 420,390	-	-	-	420,390
Construction in Progress	97,452	142,281	-	-	239,733
Total	<u>517,842</u>	<u>142,281</u>	<u>-</u>	<u>-</u>	<u>660,123</u>
Capital assets being depreciated:					
Buildings	4,199,718	39,690	-	-	4,239,408
Improvements	21,712,923	-	-	871,489	22,584,412
Equipment	1,418,601	154,116	-	-	1,572,717
Total	<u>27,331,242</u>	<u>193,806</u>	<u>-</u>	<u>871,489</u>	<u>28,396,537</u>
Less accumulated depreciation:					
Buildings	1,907,459	121,785	-	-	2,029,244
Improvements	4,489,802	623,609	-	305,018	5,418,429
Equipment	881,822	70,263	-	-	952,085
Total	<u>7,279,083</u>	<u>815,657</u>	<u>-</u>	<u>305,018</u>	<u>8,399,758</u>
Total assets being depreciated, net	<u>20,052,159</u>	<u>(621,851)</u>	<u>-</u>	<u>566,471</u>	<u>19,996,779</u>
Total Governmental Activities, net	<u>\$ 20,570,001</u>	<u>(479,570)</u>	<u>-</u>	<u>566,471</u>	<u>20,656,902</u>

In the current year \$871,489 equipment and \$305,018 accumulated depreciation from the City Fuel Internal Service Fund were transferred from Business-type Activities to Governmental Activities.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 48,372	-	-	-	48,372
Construction in Progress	851,012	4,226,993	-	-	5,078,005
Total	<u>899,384</u>	<u>4,226,993</u>	<u>-</u>	<u>-</u>	<u>5,126,377</u>
Capital assets being depreciated:					
Buildings	2,559,354	-	-	-	2,559,354
Infrastructure and improvements	27,270,275	-	-	(871,489)	26,398,786
Equipment	5,841,722	99,608	-	-	5,941,330
Total	<u>35,671,351</u>	<u>99,608</u>	<u>-</u>	<u>(871,489)</u>	<u>34,899,470</u>
Less accumulated depreciation:					
Buildings	1,240,470	67,905	-	-	1,308,375
Infrastructure and improvements	9,161,545	543,974	-	(305,018)	9,400,501
Equipment	2,916,395	196,147	-	-	3,112,542
Total	<u>13,318,410</u>	<u>808,026</u>	<u>-</u>	<u>(305,018)</u>	<u>13,821,418</u>
Total assets being depreciated, net	<u>22,352,941</u>	<u>(708,418)</u>	<u>-</u>	<u>(566,471)</u>	<u>21,078,052</u>
Total Business-Type Activities, net	<u>\$ 23,252,325</u>	<u>3,518,575</u>	<u>-</u>	<u>(566,471)</u>	<u>26,204,429</u>

Ending balances include \$871,489 equipment and \$305,018 accumulated depreciation that were transferred from the City Fuel Internal Service Fund.

Depreciation expense for 2016 was charged to functions of the City as follows:

Governmental activities:

Administration	\$ 9,244
Public safety	38,957
Public works	413,968
Community services	83,522
Water and sewer	216,037
Solid waste	10,355
Total	<u>\$ 772,083</u>

City Fuel Internal Service Fund	<u>\$ 43,574</u>
---------------------------------	------------------

Business-type activities:

Electric	329,567
Harbor and Port	478,459
Total business-type activities	<u>\$ 808,026</u>

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

VI. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

A schedule of interfund balances, advances and transfers for the year ended June 30, 2016, follows:

Advances to other funds -

These are longer term and repayment terms have not been established.

Advance from General Fund to:

City Fuel Internal Service Fund	\$ 69,944
Electric Enterprise Fund	753,255
Harbor and Port Enterprise Fund	<u>200,212</u>

Total advances to other funds	\$ <u>1,023,411</u>
-------------------------------	---------------------

Interfund receivables and payables are shown as "Due from other funds" and "Due to other funds" in each of the individual funds. The composition of interfund balance as of June 30, 2016, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Special Revenue Fund	\$ 440,247
General Fund	Nonmajor Funds	65,881
Nonmajor Funds	General Fund	<u>848,717</u>
		\$ <u>1,354,845</u>

Interfund transfers for the year ended June 30, 2016 consisted of the following:

<u>Transfers in</u>						
	<u>General Fund</u>	<u>Water and Sewer Special Revenue Fund</u>	<u>Nonmajor Funds</u>	<u>Harbor and Port</u>	<u>City Fuel</u>	<u>Total</u>
Transfers out						
General Fund	\$ -	82,235	420,000	386,748	34,417	923,400
Electric Enterprise Fund	60,000	-	30,000	-	-	90,000
Harbor and Port Enterprise Fund	-	-	20,000	-	-	20,000
	<u>\$ 60,000</u>	<u>82,235</u>	<u>470,000</u>	<u>386,748</u>	<u>34,417</u>	<u>1,033,400</u>

Transfers were made to fund operations and capital projects.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

VII. LONG – TERM DEBT

	Balance July 1, 2015	Additions	Retired	Balance June 30, 2016	Due Within One Year
Governmental Activities					
\$1,375,000 USDA water project loan, due in semi-annual installments of \$37,300 including interest through March 2040; interest at 4.5%	\$ 1,095,487	-	25,992	1,069,495	27,175
\$300,000 Delta Creek water project loan, due in annual installments of \$15,000 plus interest through January 2027 interest at 1.5%	180,000	-	15,000	165,000	15,000
Wells Fargo Bank loan due in monthly installments of \$1,810 including interest through November 2018; interest at 11.25%	61,166	-	15,624	45,542	17,695
\$305,042 Bulk Fuel loan, due in monthly installments of \$34,461 plus interest through November 2015. Interest at 4%.	170,595	-	170,595	-	-
Bulk Fuel loan for up to \$350,000, due in monthly installments of \$19,846 plus interest through July 2016. Interest at 3%.	-	176,401	156,242	20,159	20,159
Landfill closure costs	969,182	35,896	-	1,005,078	-
Accrued leave	138,099	84,524	103,190	119,433	-
Total governmental activities	\$ 2,614,529	296,821	486,643	2,424,707	80,029

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

	Balance July 1, 2015	Additions	Retired	Balance June 30, 2016	Due Within One Year
Business-type Activities					
\$1,235,000 Electric revenue bond, due in annual installments of \$110,000 to \$175,000 through 2039; Interest at 3.00% to 5.00%	\$ 1,125,000	-	115,000	1,010,000	115,000
\$980,000 Electric revenue bond, due in semi-annual installments of \$1,500 to \$76,500 through 2041; Interest at 4.00% to 5.25%	-	980,000	-	980,000	-
\$745,000 Harbor revenue bond, due in annual installments of \$30,000 to \$50,000 through 2030; Interest at 2.00% to 5.43%	630,000	-	30,000	600,000	30,000
\$500,000 Harbor revenue bond, due in annual installments of \$20,000 to \$35,000 through 2022; interest at 2.00% to 6.04%	420,000	-	20,000	400,000	25,000
Unamortized bond premium	120,413	99,325	16,620	203,118	-
Accrued leave	13,549	21,312	20,191	14,670	14,670
Total business-type activities	\$ 2,308,962	1,100,637	201,811	3,207,788	184,670

In June 2014, the City issued revenue bonds to early retire \$834,889 in outstanding 1995 electric revenue bonds and to fund the Waterfall Creek hydroelectric project. The face value of the bonds was \$1,235,000 with a premium \$117,739. Interest varies from 3.0% to 5.0% until they are repaid in 2039.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

The annual requirements to pay all general long-term debt outstanding (exclusive of accrued leave and landfill closure costs) as of June 30, 2016 are as follows:

Governmental Activities:

Year Ended June 30,	Water Loans			Wells Fargo Note	Total
	Principal	Interest	Total	Principal	Principal
2017	\$ 42,175	49,900	92,075	17,695	59,870
2018	43,412	48,438	91,850	19,943	63,355
2019	44,705	46,920	91,625	7,904	52,609
2020	46,056	45,344	91,400	-	46,056
2021	47,470	43,705	91,175	-	47,470
2022-2026	260,903	191,597	452,500	-	260,903
2027-2031	247,231	140,994	388,225	-	247,221
2032-2036	290,100	82,900	373,000	-	290,100
2037-2040	212,443	11,359	223,802	-	212,443
	<u>\$ 1,234,495</u>	<u>661,157</u>	<u>1,895,652</u>	<u>45,542</u>	<u>1,280,037</u>

Business-type activities

Year Ended June 30,	Electric Revenue Bonds				Harbor Revenue Bonds			
	Principal	Interest	Federal Subsidy	Total	Principal	Interest	Federal Subsidy	Total
2017	\$ 115,000	94,238	(7,718)	201,520	55,000	49,904	(18,254)	86,650
2018	120,000	89,637	(7,717)	201,920	60,000	47,666	(17,926)	89,740
2019	125,000	83,638	(7,718)	200,920	60,000	45,241	(17,567)	87,674
2020	135,000	77,387	(7,717)	204,670	60,000	42,802	(17,173)	85,629
2021	45,000	70,013	(7,717)	107,296	60,000	40,163	(16,378)	83,785
2022-2026	260,000	312,687	(33,338)	539,349	340,000	151,860	(61,860)	430,000
2027-2031	335,000	241,788	(24,238)	552,550	365,000	52,608	(21,591)	396,017
2032-2036	410,000	156,531	(14,350)	552,181	-	-	-	-
2037-2039	445,000	49,325	(3,150)	491,175	-	-	-	-
	<u>\$ 1,990,000</u>	<u>1,175,244</u>	<u>(113,663)</u>	<u>3,051,581</u>	<u>1,000,000</u>	<u>430,244</u>	<u>(170,749)</u>	<u>1,259,495</u>

The harbor revenue bonds and electric revenue bonds were issued pursuant to Economic Recovery Zone legislation as part of the American Recovery and Reinvestment Act. Terms of the legislation allow for the Internal Revenue Service to rebate a portion of interest paid. The rebate is subject to annual appropriation by Congress. The rebate is recorded as revenue only upon receipt in these financial statements.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

VIII. MUNICIPAL LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date the landfill stops accepting waste, generally accepted accounting principles require that the City report a portion of these closure and post-closure care costs each period based on landfill capacity used as of each balance sheet date.

The \$1,005,078 (an increase of \$35,896 from June 30, 2015) reported as landfill closure costs payable at June 30, 2016, represents the cumulative amount reported to date based on a study conducted several years ago. The final closure costs may vary significantly from the above estimate.

At June 30, 2016, the City has not reserved or designated any fund balance to fund the cost of closure and post closure monitoring, nor have any assets been restricted for this purpose.

IX. FUND BALANCES

Fund balances reported in the City's individual major funds and nonmajor funds in the aggregate on the governmental funds balance sheet is subject to the following constraints:

	General	Water and Sewer Special Revenue	Nonmajor Funds	Totals
Nonspendable:				
Long-term advances	\$ 953,467	-	-	953,467
Investment in Southwest Governments, LLC	118,136	-	-	118,136
Total nonspendable	<u>1,071,603</u>	<u>-</u>	<u>-</u>	<u>1,071,603</u>
Committed – Permanent Fund	-	-	1,197,910	1,197,910
Assigned:				
Solid Waste	-	-	66,178	66,178
General capital projects	-	-	25,628	25,628
Vehicle and machinery replacement	-	-	67,465	67,465
Total assigned	<u>-</u>	<u>-</u>	<u>159,271</u>	<u>159,271</u>
Unassigned (deficit)	<u>1,209,049</u>	<u>(334,776)</u>	<u>-</u>	<u>874,273</u>
Total fund balances	\$ <u>2,280,652</u>	<u>(334,776)</u>	<u>1,357,181</u>	<u>3,303,057</u>

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

X. EMPLOYEE RETIREMENT SYSTEM PLAN

The City follows Governmental Accounting Standards Board (GASB) Codification P20, Accounting for Pensions by State and Local Governmental Employees and GASB Codification P50, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions. GASB Codification P20 and GASB Codification P50 establish uniform standards for the measurement, recognition and display of pension and other post-employment benefits other than pensions (healthcare) expenditures/expense and related liabilities, assets, note disclosure and applicable required supplementary information in the financial reports of state and local governmental employers.

All full-time employees and certain permanent part-time employees of the City participate in the State of Alaska Public Employees' Retirement System (PERS). In addition to the pension plan both systems also administer other post-employment benefit plans.

The system is governed by the Alaska Retirement Management Board. The benefit and contribution provisions are established by State law and may be amended only by the State legislature.

Summary of Significant Accounting Policies. The financial statements for PERS are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value.

PERS acts as the common investment and administrative agencies for the following multiple-employer plans:

Plan Name	Type of Plan
Defined Benefit Pension Plan (DB)	Cost-sharing, Defined Benefit Pension
Defined Contribution Pension Plan (DC)	Defined Contribution Pension
Defined Benefit Other Postemployment Benefits (DB)	
Occupational Death and Disability Plan	Cost-sharing, Defined Benefits OPEB
Alaska Retiree Healthcare Trust Plan	Cost-sharing, Defined Benefits OPEB
Retiree Medical Plan	Cost-sharing, Defined Benefits OPEB
Defined Contribution Other Postemployment Benefits (DC)	
Healthcare Reimbursement Arrangement Plan	Defined Contribution OPEB

Other Postemployment Benefit Plans (OPBP)

Occupational Death and Disability Plan (DB)

The Occupational Death and Disability Plan provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within the System.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Alaska Retiree Healthcare Trust Plan (DB)

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust Plan (ARHCT), a Healthcare Trust Fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the System. The System retains the risk of loss of allowable claims for eligible members. The ARHCT began paying member healthcare claims on March 1, 2008. Prior to that, healthcare claims were paid for by the Retiree Health Fund (RHF).

Healthcare Reimbursement Arrangement Plan (DC)

The Healthcare Reimbursement Arrangement Plan was established to allow medical expenses to be reimbursed from individual savings accounts established for eligible participants.

Alaska Public Employee Retirement System (PERS) – Defined Benefit Plan (DB)

Plan Description. The City participates in the Alaska Public Employees' Retirement System (PERS), a cost sharing multiple employer defined benefit pension plan. PERS provides retirement benefits, disability and death benefits, and post-employment healthcare to plan members and beneficiaries. The Public Employee's Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. This report may be obtained from the system at Pouch C, Juneau, Alaska 99811 or online at <http://doa.alaska.gov/dr/pers>.

Pension Benefits. All tier employee benefits vest with five years of credited service. There are three tiers of employees based on entry date. Tier I employees enrolled prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. For tier II and III employees enrolled after June 30, 1986, but before July 1, 2006, the normal and early retirement ages are 60 and 55, respectively. All tier employees with 30 or more years of credited service may retire at any age and receive a normal benefit.

The PERS defined benefit is closed to new hires enrolled on or after July 1, 2006. New hires after this date participate in the PERS defined contribution plan (DC) described later in these notes.

Currently there are 159 employers participating in PERS, including the State of Alaska and 158 political subdivisions and public organizations.

Retirement benefits are calculated by multiplying the average monthly compensation (AMC) times credited PERS service times the percentage multiplier. The AMC is determined by averaging the salaries earned during the five highest (three highest for Police/Fire members or members hired prior to July 1, 1996) consecutive payroll years. Members must earn at least 115 days of credit in the last year worked to include it in the AMC calculation. The PERS pays a minimum benefit of \$25 per month for each year of service when the calculated benefit is less.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

The percentage multipliers for police/fire personnel are 2% for the first ten years of service and 2.5% for all service over 10 years. The percentage multipliers for all other participants are 2% for the first ten years, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986. All service before that date is calculated at 2%.

Post-employment healthcare benefits are provided without cost to all members first enrolled before July 1, 1986. Members first enrolled after June 30, 1986, but before July 1, 2006 and who have not reached age 60 may elect to pay for major medical benefits.

Post Retirement Pension Adjustments. Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

- (a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least 65 or on PERS disability; or
- (b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least 60, or has been receiving benefits for at least five years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who first entered the PERS before July 1, 1986, if the CPI increases and the financial condition of the fund will permit an increase. In a year where an ad hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

Funding Policy. In April 2008 the Alaska Legislature passed legislation which statutorily capped the employer contribution, established a state funded "on-behalf" contribution, and required that employer contributions be calculated against all PERS eligible wages, including wages paid to participants of the PERS Tier IV defined contribution plan (DC) described later in these footnotes. The state legislature capped the rate at 22%, with the State contributing an on-behalf payment for the difference between the actuarial contribution and the cap.

Salary Floor. During the 25th legislation session, Senate Bill 125 passed, which established a June 30, 2008 salary floor under AS 39.35.255(a)(2). The salary floor is the total base salaries paid by an employer to active employees of the system as of the fiscal year ending June 30, 2008. The statute requires the Division of Retirement and Benefits (Division) to collect employer contributions at a minimum based on FY 2008 base salaries.

Termination Costs. If the City decides to terminate coverage for a department, group, or other classification of members, even if that termination results from the decision to divest of a particular City function, all affected employees in that department, group or other classification of members become immediately vested in the plan. The City must pay to have a termination study completed. The purpose of the study is to calculate the City's one-time termination costs. The costs represent the amount necessary to fully fund the costs of plan members who become vested through this process and for other changes in actuarial assumptions, such as, earlier than expected retirement, that arise from the act of termination of coverage. The City must pay a lump sum within 60 days of termination or arrange a payment plan that is acceptable to the PERS Administrator. For fiscal year 2016 the past service rate is 16.53%.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Employee Contribution Rate. The City PERS active members are required to contribute 6.75% (4.12% pension costs and 2.63% OPEB) and non-teacher City employees are required to contribute 9.60% (5.86% pension and 3.74% OPEB) of their annual covered salary.

Employer and Other Contribution Rates. There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

Employer Effective Rate: This is the actual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% (13.25% pension costs and 8.75% OPEB) of eligible wages, subject to the salary floor, and other termination costs as described above. This 22% rate is calculated on all PERS participating wages, including those wages attributable to employees in the defined contribution plan.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. This rate is 27.19% (16.59% pension and 10.60% OPEB). Prior to July 1, 2015, there were no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This will result in lower ARM Board Rates in future years.

On-behalf Contribution Rate: This is the rate paid in by the State as an on-behalf payment as mandated under current statute. Under state law, subject to annual appropriation, the state will contribute an on-behalf payment into the plan in an amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. As a result, the On-behalf Contribution Rate for 2016 is 5.19% (3.63%% pension and 1.56% OPEB). On-behalf contribution amounts have been recognized in these financial statements as both revenue and expenditures.

GASB Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes. Certain actuarial methods and assumptions for this rate calculation are mandated by the *Governmental Accounting Standards Board* (GASB). Medicare Part D subsidies are not reflected in this rate. The rate uses an 8% pension discount rate and a 4.55% healthcare discount rate. The current rate is 96.52% (37.79% pension and 58.73% OPEB).

Employer contributions for the years ended June 30, 2016, 2015 and 2014 are as follows:

		Pensions (DB)	Other Post-Employment Benefits (DB)	Total
2016	\$	83,610	55,858	139,468
2015		95,878	72,147	168,025
2014		91,956	98,179	190,135

The defined benefit unfunded liability (DBUL) presented under the defined contribution plan includes employer contributions of \$25,843 (pension) and \$17,052 (OPEB).

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

For the year ended June 30, 2016 the State of Alaska contributed \$64,272 (70% pension cost, 30% OPEB) on-behalf of the City, which has been recorded in the fund financial statement under the modified-accrual basis of accounting. In the government-wide financial statements the on-behalf contribution has been adjusted as of the measurement date June 30, 2015 to a total of \$65,365, to represent the on-behalf contribution made by the State under the full accrual basis of accounting.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2016, the City reported a liability that reflected a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the net pension liability	\$ 2,411,806
State's proportionate share of the net pension liability	<u>646,386</u>
Total	\$ <u>3,058,192</u>

\$1,766,054 of the net pension is reported in the governmental activities and \$645,752 is reported in the business-type activities.

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the present value of contributions for FY2017 through FY2039, as determined by projections based on the June 30, 2014 valuation. At June 30, 2016, the City's proportion was 0.0497%, which is an increase of 0.0245% from its proportion measured as of June 30, 2015.

Based on the measurement date of June 30, 2015, the City recognized pension expense of \$782,001 for the year ended June 30, 2016. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,811	-
Changes of assumptions	141,021	-
Net difference between projected and actual earnings on pension plan investments	-	(42,699)
Changes in proportion and differences between City contributions and proportionate share of contributions	396,398	(237)
City contributions subsequent to the measurement date	<u>109,453</u>	<u>-</u>
Total	\$ <u>649,683</u>	<u>(42,936)</u>

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

\$109,453 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2017	\$ 463,460
2018	21,688
2019	(27,423)
2020	39,569
Total	\$ 497,294

For the year ended June 30, 2016, the City recognized \$359,574 of amortization of the net deferred outflows and inflows of resources.

Actuarial Assumptions: The total pension liability in the June 30, 2015 (latest available) actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement. The actuarial assumptions were based upon the results of an actuarial experience study performed as of June 30, 2013.

Investment return / discount rate	8% per year (geometric), compounded annually, net of expenses
Salary scale	Inflation – 3.12% per year Productivity – 0.50% per year
Payroll growth	3.62% per year (inflation + productivity)
Total inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers from Anchorage is assumed to increase 3.12% annually.
Mortality (Pre-termination)	Based upon 2010-2013 actual mortality experience. 60% of male rates and 65% of female rates of post termination mortality rates. Deaths are assumed to be occupational 70% of the time for peace officers, and firefighters, 50% of the time for others.
Mortality (Post-termination)	96% of all rates of the RP-2000 combined mortality table, 2000 base year projected to 2018.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Total turnover	Based upon the 2010-2013 actual withdrawal experience.
Disability	Incidence rates based on 2010-2013 actual experience. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. Disabilities are assumed to be occupational 70% of the time for peace officers / firefighters, 50% of the time for others.
Retirement	Retirement rates based upon the 2010-2013 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date for others. For peace officers/firefighters, Tier 1 deferred vested members are assumed to retire at age 55 and Tiers 2 and 3 deferred vested members are assumed to retire at age 60.
Marriage and age difference	Wives are assumed to be three years younger than husbands. For others, 75% of male members and 70% of female members are assumed to be married. For peace officers/firefighters, 85% of male members and 60% female members are assumed to be married.

The long-term expected rate of return on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized below:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	6.77%
International Equity	7.50%
Private Equity	10.86%
Fixed Income	2.05%
Real Estate	3.63%
Absolute Return	4.80%

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Discount Rate: The discount rate used to measure the total pension liability was 8.00%. The projection of the cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net pension was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 8%, as well as what the Plans' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease	Current Rate	1% Increase
	(7%)	(8%)	(9%)
Net pension liability	\$ 3,206,292	2,411,806	1,742,931

Alaska Public Employee Retirement System (PERS) – Defined Contribution Plan (DC)

Plan Description and Funding Requirements. City's and Public Employers in the State of Alaska have a defined contribution retirement plan (PERS Tier IV) for new hires first enrolled on or after July 1, 2006. Plan members make mandatory contributions of 8% of gross eligible compensation. This amount goes directly to the individual's account. State statutes require the employer to contribute 5% of employees' eligible compensation. Additionally, employers are required to contribute to OPEB (DB): 1.68% for the retiree medical plan (DB), 0.22% for occupational and death and disability benefits (DB) and 3% of employers' average annual employee compensation to the health reimbursement arrangement (HRA DC). The effective employer contribution is 22%. Plan members are 100% vested with their contributions.

Members become vested in employers' contributions as follows:

- 2 years of service – 25%
- 3 years of service – 50%
- 4 years of service – 75%
- 5 years of service – 100%

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

Plan provisions and contribution requirements and amendments are established by the Alaska Retirement Management Board (ARMB). Total contributions for the year ended June 30, 2016 are as follows:

	Employer	Employee
Defined contribution – pension (DC)	\$ 20,842	33,347
Other post-employment benefits (DB):		
Retiree medical plan	7,003	-
Occupational death and disability benefits	1,364	-
Other post-employment benefits (DC) –		
Health reimbursement agreement (HRA)	22,884	-
Defined benefit unfunded liability (DBUL)	42,895	-
	<u>\$ 94,988</u>	<u>33,347</u>

Actual contributions were equal to the annual required contributions. The Defined Benefit Unfunded Liability (DBUL) is computed as the difference between the statutory employer contribution rate less employer contributions for the defined contribution, major medical, occupational death and disability and the health reimbursement arrangement. The DBUL calculation is allocated 60% pension and 40% OPEB.

Employer contributions for the years ended June 30, 2016, 2015 and 2014 are as follows:

		Pensions	Other Post-Employment Benefits	Total
2016	\$	46,678	48,310	94,988
2015		21,947	32,018	53,965
2014		25,409	29,433	54,842

Actual contributions were equal to the annual required contributions.

XII. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The provisions of the Plan require that all assets and income of the Plan be held in trust for the exclusive benefit of participants and their beneficiaries.

XIII. PERMANENT FUND

City Code 5.05.225 established a capital reserve account (Permanent Fund). It is the City's intent in establishing this fund that it be used to purchase new equipment, replace existing equipment, or make major repairs to existing equipment or facilities so the City has adequate capital facilities and equipment to provide the public services it delivers. In addition, the fund can be used for the public safety and welfare of residents of the City if emergency needs exist.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

XIV. RISK MANAGEMENT

The City faces a considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability; i.e., errors and omissions, (d) environmental damage, (e) workers' compensation; i.e., employee injuries, and (f) medical insurance costs of employees. Commercial policies transferring the risk of loss, except for relatively small deductible amounts, are purchased for employee medical costs. The City participates in the Alaska Municipal League Joint Insurance Association (AML/JIA), which provides insurance coverage for property and contents damage, torts, general and automobile liability, and worker's compensation. The AML/JIA is a public entity risk pool organized to share risks among its members. The Association's bylaws provide for the assessment of supplemental contributions from members in the event that losses and expenses for any coverage year exceed the annual contributions and income earned on such contributions for the year. Such supplemental contributions shall be based on each member's annual deposit contribution in comparison to the aggregate annual deposit contributions of all members. The Association made no supplemental assessments during the year ended June 30, 2016. Coverage limits and the deductibles on the policies have stayed relatively constant for the last several years. Claims incurred have not exceeded coverage limits for the last three years.

XV. CONTINGENT LIABILITIES

The City participates in a number of State and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

XVI. RELATED PARTIES

During 2016, the City paid \$98,925 for contract services provided by a contractor related to the board members.

XVII. RECLASSIFICATION

Certain items in the year ended June 30, 2015 financial statements have been reclassified to conform to the year ended June 30, 2016 presentation.

XVIII. SUBSEQUENT EVENTS

Management has evaluated events through March 16, 2017, the date which the financial statements are available for issue.

CITY OF KING COVE, ALASKA

Notes to the Basic Financial Statements, Continued

IX. NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates covering several topics as follows:

- GASB 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Effective for fiscal years beginning after June 15, 2016.
- GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Effective for fiscal years beginning after June 15, 2017.
- GASB 77 – *Tax Abatement Disclosures*. Effective for fiscal years beginning after December 15, 2015.
- GASB 78 – *Pension Provided through Certain Multiple – Employer Defined Benefit Pension Plans*. Effective for fiscal years beginning after December 15, 2015.
- GASB 80 – *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. Effective for fiscal years beginning after June 15, 2016.
- GASB 81 – *Irrevocable Split –Interest Agreements*. Effective for fiscal years beginning after December 15, 2016.
- GASB 82 – *Pension Issues – an Amendment of GASB Statement No. 67, No. 68, and No. 73*.

Statements 77, 78, and 81 are not expected to have any significant impact on the financial statements of the City.

GASB Statements No. 74 and 75, the objective of these Statements is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. For defined benefit OPEB plans that are administered through trusts that meet the specified criteria, this Statement requires two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position. Note disclosures and required supplemental information are addressed in these statements. GASB Statement 75 establishes standards for measuring liabilities, deferred inflow and outflows of resources, and expenses/expenditures.

GASB Statement No. 80 – This statement amends the blending requirements for the financial statements presentation of component units of all State and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation when the primary government is the sole corporate member.

GASB Statement No. 82 – The objective of this statement is to address certain pension issues. This statement defines covered payroll in required supplementary information as “the payroll on which contributions to a pension plan are based, and the ratios that use that measure”. This statement also addresses classification of employer paid member contributions as being member contributions. Finally this statement addresses selection of assumptions and clarifies that a deviation is not considered in conformity with the requirements of GASB Statements No. 67, No.68, or No.73.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KING COVE, ALASKA

Schedule of District's Proportionate Share of the Net Pension Liability

Public Employees' Retirement System

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.0497%	0.0252%
City's proportionate share of net pension liability	\$ 2,411,806	1,176,986
State's proportionate share of the net pension liability associated with the City	\$ 646,386	1,058,396
Total	<u>3,058,192</u>	<u>2,235,382</u>
City's covered employee payroll	764,577	864,250
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	315%	136%
Plan fiduciary net position as a percentage of the total pension liability	63.96%	62.37%

Notes to schedule

1. Information presented for 2016 is based upon Plan measurement date June 30, 2015.
2. Measurement is one year prior to fiscal year end for all years presented.
3. This schedule is intended to present 10 years of information. Additional years will be included as it becomes available.

CITY OF KING COVE, ALASKA
Schedule of District's Contributions
Public Employee's Retirement System
June 30, 2016 and 2015

	2016	2015
Contractually required contribution	\$ 109,453	95,878
Contributions in relation to the contractually required contribution	(109,453)	(95,878)
Contribution deficiency	-	-
District's covered-employee payroll	826,060	764,577
Contributions as a percentage of covered employee payroll	13.25%	12.54%

Notes to schedule

1. Valuation date: June 30, 2014
2. Actuarially determined contribution rates are calculated as of June 30th, two years prior to the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

3. Actuarial cost method: Entry Age Normal.
4. Amortization method: Level dollar, closed.
5. Amortization period: 25 years, layered.
6. Equivalent single amortization period: 17 years.
7. Asset valuation method: Actuarial value that smoothens investment gains and losses over 5 years, constrained to a range of 80% - 120% of fair value.
8. Inflation: 3.12% per annum.
9. Salary increases: Ranges from 6.36% to 4.12% based on service for Peace Officer/Firefighter. Ranges from 9.60% to 3.62% based on age and service for All Others.
10. Investment rate of return: 8%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
11. Retirement age: An age-related assumption is used for participants not yet receiving payments.
12. Mortality: 1994 Group Annuity Mortality (GAM) Table, sex distinct, 1994 Base Year without margin projected to 2013 using projection Scale AA, 80% of the male table for males and 60% of the female table for females for pre-termination mortality for Peace Officer/Firefighter, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 75% of the male table for males and 55% of the female table for females for pre-termination mortality for All Others and the 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with a 1-year set-forward for females for post-termination mortality.
13. This schedule is intended to present 10 years of information. Additional years will be included as it becomes available.

ADDITIONAL SUPPLMENTARY INFORMATION

CITY OF KING COVE, ALASKA
General Fund
Balance Sheet
June 30, 2016
(With Comparative Amounts for 2015)

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 762,469	718,928
Receivables:		
Accounts	610,236	48,802
Sales taxes	232,890	221,930
Other	2,430	2,379
Due from other funds	506,128	593,280
Advance to City Fuel Internal Service Fund	69,944	-
Advances to other funds	953,467	804,412
Investment in Southwest Governments, LLC	<u>118,136</u>	<u>118,136</u>
 Total assets	 \$ <u>3,255,700</u>	 <u>2,507,867</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	17,331	19,032
Accrued payroll and related liabilities	109,000	45,879
Unearned revenues	-	6,013
Due to other funds	848,717	596,533
Advances from other funds	-	36,861
Total liabilities	<u>975,048</u>	<u>704,318</u>
 Fund balances		
Nonspendable:		
Advances to other funds	953,467	804,412
Investment in Southwest Governments, LLC	118,136	118,136
Unassigned	<u>1,209,049</u>	<u>881,001</u>
Total fund balance	<u>2,280,652</u>	<u>1,803,549</u>
 Total liabilities and fund balance	 \$ <u>3,255,700</u>	 <u>2,507,867</u>

-

CITY OF KING COVE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and ActualYear Ended June 30, 2016
With Comparative Amounts for 2015

	2016			2015
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Actual</u>
Revenues:				
Taxes:				
Sales tax	\$ 1,850,000	2,012,209	162,209	1,530,330
Business impact tax	100,000	100,000	-	100,000
Total taxes	<u>1,950,000</u>	<u>2,112,209</u>	<u>162,209</u>	<u>1,630,330</u>
Intergovernmental:				
Aleutians East Borough -				
KCAP Reimbursement	715,000	709,023	(5,977)	85,039
Federal sources:				
IRR Roads	57,462	57,463	1	44,302
FEMA Firefighter Grant	-	-	-	47,000
State of Alaska:				
Shared fisheries business tax	404,385	404,385	-	510,155
State PERS relief	50,000	31,266	(18,734)	252,927
State revenue sharing	132,800	132,800	-	140,644
State liquor license	2,500	2,500	-	4,000
Extraterritorial fish tax	33,713	33,713	-	30,539
State of Alaska PCE	10,000	13,441	3,441	30,125
Total intergovernmental	<u>1,405,860</u>	<u>1,384,591</u>	<u>(21,269)</u>	<u>1,144,731</u>
Charges for services:				
Public safety revenue	4,045	1,645	(2,400)	70
Co-op and teen center revenue	-	19,313	19,313	23,383
Recreational programs	27,600	50,538	22,938	15,508
Total charges for services	<u>31,645</u>	<u>71,496</u>	<u>39,851</u>	<u>38,961</u>
Other revenues - miscellaneous	<u>25,439</u>	<u>13,614</u>	<u>(11,825)</u>	<u>22,329</u>
Total revenues	<u>3,412,944</u>	<u>3,581,910</u>	<u>168,966</u>	<u>2,836,351</u>

(continued)

CITY OF KING COVE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	<u>2016</u>			<u>2015</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Actual</u>
Expenditures:				
General government				
City Council				
Salaries	\$ 7,800	5,412	2,388	7,200
Employee benefits	56,339	68,918	(12,579)	55,499
Travel and per diem	2,500	2,510	(10)	2,746
Due and fees	600	-	600	2,050
Total City Council	<u>67,239</u>	<u>76,840</u>	<u>(9,601)</u>	<u>67,495</u>
Planning:				
Salaries	47,430	47,614	(184)	40,297
Stipends	700	700	-	250
Employee benefits	13,150	14,313	(1,163)	21,593
Insurance	1,552	1,590	(38)	1,577
Deferred compensation	1,200	1,200	-	1,200
Total planning	<u>64,032</u>	<u>65,417</u>	<u>(1,385)</u>	<u>64,917</u>
Administration:				
Salaries	119,120	116,830	2,290	115,569
Employee benefits	75,323	59,158	16,165	89,942
Contractual	100	100	-	2,135
Travel and per diem	6,000	5,816	184	7,240
Telephone	7,200	7,262	(62)	7,314
Postage	4,350	4,331	19	5,534
Supplies	13,500	14,718	(1,218)	12,271
Utilities - diesel	3,000	2,890	110	3,533
Utilities - electric	2,000	1,944	56	2,141
Dues and fees	3,100	1,656	1,444	2,187
Insurance	6,210	6,364	(154)	6,307
Deferred compensation	3,000	3,000	-	5,200
Total administration	<u>242,903</u>	<u>224,069</u>	<u>18,834</u>	<u>259,373</u>

(continued)

CITY OF KING COVE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	2016			2015
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Actual</u>
Expenditures, continued:				
General government, continued:				
Anchorage office:				
Salaries	\$ 163,000	166,501	(3,501)	128,039
Employee benefits	54,525	44,574	9,951	53,110
Contractual	60,000	54,886	5,114	56,685
Travel and per diem	30,000	29,442	558	36,581
Telephone	3,900	4,098	(198)	3,978
Postage	100	223	(123)	115
Supplies	7,800	9,005	(1,205)	4,526
Rent	18,000	18,267	(267)	18,241
Dues and fees	7,150	7,127	23	5,091
Insurance	4,657	4,772	(115)	4,731
Miscellaneous	4,500	5,282	(782)	741
Deferred compensation	4,350	3,645	705	3,270
Total Anchorage office	<u>357,982</u>	<u>347,822</u>	<u>10,160</u>	<u>315,108</u>
Total general government	<u>732,156</u>	<u>714,148</u>	<u>18,008</u>	<u>706,893</u>
Public safety:				
Salaries	230,400	230,099	301	230,286
Employee benefits	144,519	110,082	34,437	197,208
Stipends	10,000	11,450	(1,450)	9,900
Contractual	97,370	97,370	-	93,150
Travel and per diem	1,725	1,718	7	2,300
Telephone	16,680	16,982	(302)	14,470
Postage	1,500	1,508	(8)	1,255
Supplies	20,103	20,916	(813)	18,379
Utilities - diesel	4,750	4,743	7	5,368
Utilities - electric	5,900	5,909	(9)	5,563
Dues and fees	-	-	-	179
Insurance	31,046	31,814	(768)	32,085
Fuel	10,775	10,769	6	10,817
Miscellaneous	2,700	2,606	94	6,776
Animal control	13,750	13,906	(156)	33,061
Deferred compensation	6,000	6,000	-	6,000
Equipment	-	-	-	49,229
Total public safety	<u>597,218</u>	<u>565,872</u>	<u>31,346</u>	<u>716,026</u>

(continued)

CITY OF KING COVE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	<u>2016</u>		<u>2015</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Actual</u>
Expenditures, continued:				
Public works:				
Salaries	\$ 246,448	254,417	(7,969)	164,092
Employee benefits	115,921	105,016	10,905	128,244
Contractual	200	200	-	-
Travel and per diem	6,500	6,360	140	4,024
Telephone	4,300	4,408	(108)	3,155
Supplies	73,000	77,585	(4,585)	45,715
Utilities - electric	26,500	26,431	69	27,966
Insurance	32,600	33,407	(807)	33,114
Fuel - gas	5,000	4,975	25	6,932
Fuel - diesel	11,000	10,950	50	11,782
Miscellaneous	900	11,076	(10,176)	-
Deferred compensation	2,100	2,100	-	2,100
Total public works	<u>524,469</u>	<u>536,925</u>	<u>(12,456)</u>	<u>427,124</u>
Community services -				
recreational programs:				
Salaries	50,000	50,297	(297)	75,915
Employee benefits	5,250	4,638	612	34,317
Telephone	4,725	4,719	6	5,378
Supplies	21,733	23,933	(2,200)	21,763
Supplies - school building	1,525	1,507	18	4,156
Utilities - diesel	24,000	20,545	3,455	27,198
Utilities - electric	22,000	22,210	(210)	22,022
Insurance	10,866	11,135	(269)	11,038
Fuel - gas	2,000	4,839	(2,839)	4,607
Miscellaneous	1,800	1,800	-	1,432
Bank fees	-	-	-	-
Total community services	<u>143,899</u>	<u>145,623</u>	<u>(1,724)</u>	<u>207,826</u>

(continued)

CITY OF KING COVE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

	2016			2015
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Actual</u>
Expenditures, continued:				
Other:				
Audit and accounting assistance	\$ 58,250	58,238	12	34,800
Legal	30,000	32,113	(2,113)	32,709
Technical support	13,000	14,678	(1,678)	18,929
Elections	600	600	-	600
Senior citizen power subsidy	51,250	51,151	99	49,069
Bank fees	15,750	15,670	80	15,449
Donations	18,000	17,959	41	5,820
Aleutia grant	76,751	76,571	180	50,718
Miscellaneous	24,000	11,859	12,141	8,185
Total other	<u>287,601</u>	<u>278,839</u>	<u>8,762</u>	<u>216,279</u>
Total expenditures	<u>2,285,343</u>	<u>2,241,407</u>	<u>43,936</u>	<u>2,274,148</u>
Excess of revenues over expenditures	1,127,601	1,340,503	212,902	562,203
Other financing sources (uses):				
Transfers in:				
Electric Enterprise Fund	60,000	60,000	-	60,000
Transfers out:				
Special Revenue Funds				
Water and Sewer	(20,000)	(82,235)	62,235	(20,000)
Housing and Community Projects	-	-	-	(81,806)
Permanent Fund	(200,000)	(200,000)	-	-
Capital Project Funds				
General Capital Projects	(195,000)	(195,000)	-	(210,478)
Vehicle and Machinery Replacement	(25,000)	(25,000)	-	-
Harbor and Port Enterprise Fund	(85,400)	(386,748)	(301,348)	(85,400)
City Fuel Internal Service Fund	(400,000)	(34,417)	365,583	(74,419)
Total other financing uses	<u>(865,400)</u>	<u>(863,400)</u>	<u>126,470</u>	<u>(412,103)</u>
Net change in fund balance	\$ <u>262,201</u>	477,103	<u>339,372</u>	150,100
Beginning fund balance		<u>1,803,549</u>		<u>1,653,449</u>
Ending fund balance		\$ <u>2,280,652</u>		<u>1,803,549</u>

CITY OF KING COVE, ALASKA

Water and Sewer Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in
Fund Balance (Deficit) - Budget and ActualYear Ended June 30, 2016
(With Comparative Amounts for 2015)

	2016			2015
	Budget	Actual	Variance	Actual
Revenues:				
Local - charges for services:				
Water	\$ 94,800	94,840	40	67,540
Water - Peter Pan Seafood	321,000	385,888	64,888	111,867
Sewer	38,670	38,771	101	38,571
Sewer - Peter Pan Seafood	26,000	32,000	6,000	16,000
Finance charges	220	73	(147)	70
Local - other	-	150	150	4,400
Intergovernmental:				
State PERS relief	6,400	2,761	(3,639)	23,415
State of Alaska PCE	14,000	8,401	(5,599)	18,828
Total revenues	<u>501,090</u>	<u>562,884</u>	<u>61,794</u>	<u>280,691</u>
Expenditures:				
Water:				
Salaries	44,000	43,990	10	39,095
Employee benefits	16,099	12,845	3,254	15,679
Travel and per diem	-	-	-	2,496
Contractual	1,750	1,750	-	6,532
Professional services	-	-	-	2,370
Telephone	5,000	4,803	197	3,913
Supplies	20,000	16,603	3,397	21,164
Utilities - electric	151,750	151,614	136	134,350
Utilities - heat	6,000	5,890	110	9,433
Rent	2,910	-	2,910	2,928
Dues and fees	650	630	20	1,165
Insurance	4,657	4,772	(115)	4,730
Fuel - gas	4,500	4,345	155	6,000
Fuel - diesel	75	73	2	-
Test fees	4,500	438	4,062	1,362
Deferred compensation	750	705	45	705
Total water	<u>\$ 262,641</u>	<u>248,458</u>	<u>14,183</u>	<u>251,922</u>

(continued)

CITY OF KING COVE, ALASKA

Water and Sewer Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance
(Deficit) - Budget and Actual, continued

	2016			2015
	Budget	Actual	Variance	Actual
Expenditures, continued:				
Sewer:				
Salaries	\$ 32,841	31,293	1,548	33,750
Employee benefits	17,496	14,548	2,948	32,378
Supplies	15,000	14,735	265	13,089
Utilities - electric	9,125	9,181	(56)	6,478
Fuel - diesel	750	568	182	799
Equipment	-	-	-	-
Deferred compensation	500	405	95	405
Total sewer	<u>75,712</u>	<u>70,730</u>	<u>4,982</u>	<u>86,899</u>
Debt service:				
Principal	33,000	40,992	(7,992)	43,724
Interest	59,000	51,740	7,260	48,801
Total debt service	<u>92,000</u>	<u>92,732</u>	<u>(732)</u>	<u>92,525</u>
Total expenditures	<u>430,353</u>	<u>411,920</u>	<u>18,433</u>	<u>431,346</u>
Excess (deficiency) of revenues over expenditures	70,737	150,964	80,227	(150,655)
Other financing sources -				
Transfers in General Fund	<u>20,000</u>	<u>82,235</u>	<u>62,235</u>	<u>20,000</u>
Net change in fund balance	\$ <u>90,737</u>	233,199	<u>142,462</u>	(130,655)
Beginning fund balance (deficit)		<u>(567,975)</u>		<u>(437,320)</u>
Ending fund balance (deficit)		\$ <u><u>(334,776)</u></u>		<u><u>(567,975)</u></u>

CITY OF KING COVE, ALASKA
Electric Enterprise Fund
Schedule of Net Position
June 30, 2016
(With Comparative Amounts for 2015)

<u>Assets and Deferred Outflows of Resources</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Receivables:		
Accounts	\$ 26,175	54,133
Grants	526,095	86,414
Allowance for doubtful accounts	(4,506)	(14,000)
Total current assets	<u>547,764</u>	<u>126,547</u>
Restricted cash -		
Bond reserves	<u>165,813</u>	<u>86,334</u>
Property, plant and equipment:		
Construction in progress - Waterfall Creek hydroelectric project	5,078,005	851,012
Land	48,372	48,372
Infrastructure	3,955,382	3,955,382
Improvements	723,045	723,045
Buildings	2,203,494	2,203,494
Equipment	5,009,193	4,934,240
Total property, plant and equipment	<u>17,017,491</u>	<u>12,715,545</u>
Less accumulated depreciation	<u>(6,204,167)</u>	<u>(5,874,600)</u>
Net property, plant and equipment	<u>10,813,324</u>	<u>6,840,945</u>
Deferred outflows of resources -		
Pension deferrals	<u>95,224</u>	<u>13,423</u>
Total assets and deferred outflows of resources	<u>\$ 11,622,125</u>	<u>7,067,249</u>
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Current liabilities:		
Accounts payable	53,638	13,808
Accrued payroll and related liabilities	10,167	10,258
Customer deposits	7,534	4,793
Accrued interest payable	15,568	3,804
Accrued leave	7,014	4,155
Current portion of revenue bonds	115,000	115,000
Total current liabilities	<u>208,921</u>	<u>151,818</u>
Noncurrent liabilities:		
Advance from other funds	753,255	337,288
Revenue bonds	1,875,000	1,010,000
Unamortized bond premium	186,095	102,255
Net pension liability	353,498	164,778
Total noncurrent liabilities	<u>3,167,848</u>	<u>1,614,321</u>
Deferred inflows of resources -		
Pension deferrals	<u>6,293</u>	<u>15,345</u>
Net position:		
Net investment in capital assets	8,637,229	5,613,690
Unrestricted (deficit)	<u>(398,166)</u>	<u>(327,925)</u>
Total net position	<u>8,239,063</u>	<u>5,285,765</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 11,622,125</u>	<u>7,067,249</u>

CITY OF KING COVE, ALASKA

Electric Enterprise Fund

Schedule of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2016
(With Comparative Amounts for 2015)

	2016	2015
Operating revenues - charges for services:		
Electric	\$ 602,672	591,807
State of Alaska PCE	21,170	47,422
City owned electric	384,139	408,224
Harbor electric	129,429	142,390
Finance charges	248	392
Other	66,245	72,321
Total operating revenues	1,203,903	1,262,556
Operating expenses:		
Salaries	169,161	161,168
Employee benefits	177,278	30,585
Travel and training	85	340
Telephone	12,058	10,860
Supplies	39,241	37,010
Dues and fees	510	-
Insurance	20,679	20,558
Professional services	1,187	2,418
Contractual	-	868
Power plant electric	32,016	65,561
Fuel - power plant	273,581	414,350
Fuel - vehicles	6,380	10,216
Equipment	853	-
Repairs and maintenance	-	5,220
Miscellaneous expense	2,495	2,372
Depreciation	329,567	308,707
Total operating expenses	1,065,091	1,070,233
Income from operations	138,812	192,323
Nonoperating revenues (expenses):		
Interest expense	(72,848)	(37,440)
Grant revenue	2,549,596	60,329
Senior power subsidy	(51,151)	(49,069)
Other contributions	463,622	-
State PERS relief	15,267	6,761
Net nonoperating revenues (expenses)	2,904,486	(19,419)
Income before transfers	3,043,298	172,904
Other financing sources (uses):		
Transfers to General Fund	(60,000)	(60,000)
Transfers to Permanent Fund	(30,000)	(30,000)
Total other financing sources (uses)	(90,000)	(90,000)
Change in net position	2,953,298	82,904
Net position, beginning, as previously stated	5,285,765	5,407,821
Cumulative effect of a change in accounting principle	-	(204,960)
Net position, beginning, as restated	5,285,765	5,202,861
Ending net position	\$ 8,239,063	5,285,765

CITY OF KING COVE, ALASKA

Electric Enterprise Fund

Schedule of Cash Flows

Year Ended June 30, 2016
(With Comparative Amounts for 2015)

	2016	2015
Cash flows from operating activities:		
Receipts from customers and users	1,225,108	1,257,805
Payments to suppliers	(349,255)	(616,669)
Payments to employees	(230,537)	(224,006)
Net cash flows from operating activities	645,316	417,130
Cash flows from noncapital financing activities:		
Senior power subsidy	(51,151)	(49,069)
Increase (decrease) in advance from other funds	415,967	(88,697)
Transfers out	(90,000)	(90,000)
Net cash flows from noncapital financing activities	274,816	(227,766)
Cash flows from capital and related financing activities:		
Purchase of capital assets	(4,301,946)	(300,263)
Capital contributions received	2,573,537	-
Proceeds from issuance of debt	980,000	-
Principal payments on long-term debt	(115,000)	(110,000)
Unamortized bond discount	83,840	-
Interest payments on long-term debt	(61,084)	(50,872)
Net cash flows from capital and related financing activities	(840,653)	(461,135)
Net increase (decrease) in cash and investments	79,479	(271,771)
Beginning cash and cash equivalents	86,334	358,105
Ending cash and cash equivalents	165,813	86,334
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Income from operations	138,812	192,323
Adjustments to reconcile loss from operations to net cash flows from operating activities:		
Depreciation	329,567	308,707
Pension expense	113,134	(31,499)
(Increase) in assets - accounts receivable (net)	18,464	(5,501)
Increase (decrease) in liabilities:		
Accounts payable	39,830	(46,896)
Accrued payroll and related liabilities	(91)	439
Customer deposits	2,741	4,793
Unearned revenue	-	(4,043)
Accrued leave	2,859	(1,193)
Net cash flows provided by operating activities	\$ 645,316	417,130

CITY OF KING COVE, ALASKA
Harbor and Port Enterprise Fund
Schedule of Net Position
June 30, 2016
(With Comparative Amounts for 2015)

<u>Assets and Deferred Outflows of Resources</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Receivables:		
Accounts	\$ 96,639	110,446
Allowance for doubtful accounts	(4,983)	(20,400)
Total current assets	<u>91,656</u>	<u>90,046</u>
Restricted cash - bond reserves	<u>108,502</u>	<u>108,484</u>
Property, plant and equipment:		
Infrastructure	21,720,359	21,720,359
Buildings	355,860	355,860
Equipment	932,137	907,482
Total property, plant and equipment	<u>23,008,356</u>	<u>22,983,701</u>
Less accumulated depreciation	<u>(7,617,251)</u>	<u>(7,138,792)</u>
Net property, plant and equipment	<u>15,391,105</u>	<u>15,844,909</u>
Deferred outflows of resources -		
Pension deferrals	<u>78,726</u>	<u>14,382</u>
Total assets and deferred outflows of resources	<u>\$ 15,669,989</u>	<u>16,057,821</u>
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Current liabilities:		
Accounts payable	2,196	766
Accrued payroll and related liabilities	12,324	10,400
Accrued interest payable	16,461	16,961
Accrued leave	7,656	9,394
Current portion of revenue bonds	55,000	50,000
Total current liabilities	<u>93,637</u>	<u>87,521</u>
Noncurrent liabilities:		
Advances from other funds	200,212	467,124
Revenue bonds	945,000	1,000,000
Unamortized bond premium	17,023	18,158
Net pension liability	292,254	176,548
Total noncurrent liabilities	<u>1,454,489</u>	<u>1,661,830</u>
Deferred inflows of resources -		
Pension deferrals	<u>5,203</u>	<u>16,441</u>
Net position:		
Net investment in capital assets	14,374,082	14,776,751
Unrestricted (deficit)	<u>(257,422)</u>	<u>(484,722)</u>
Total net position	<u>14,116,660</u>	<u>14,292,029</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,669,989</u>	<u>16,057,821</u>

CITY OF KING COVE, ALASKA

Harbor and Port Enterprise Fund

Schedule of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2016
(With Comparative Amounts for 2015)

	2016	2015
Revenues:		
Charges for services:		
Operating revenues:		
Moorage	\$ 155,955	125,119
Pot storage	17,709	20,436
Haulout	56,996	62,761
Wharfage	34,537	41,121
Harbor electric	4,003	4,404
State ferry	7,700	12,100
Space rent	7,747	16,407
Lockers	20,671	4,277
Skiff storage	2,551	68
Warehouse loft usage	2,282	682
Forklift	35,740	32,250
Other	16,019	3,085
Harbor fuel inbound	2,585	-
Finance charges	2,687	5,879
Total revenues	367,182	328,589
Operating expenses:		
Harbor:		
Salaries	167,645	169,730
Employee benefits	103,009	24,433
Travel and per diem	2,316	4,551
Telephone	3,871	2,625
Supplies	28,356	26,985
Utilities - heat	5,412	7,451
Utilities - electric	17,576	12,830
Advertising	757	-
Insurance	39,851	26,807
Fuel - gas	2,946	3,712
Fuel - diesel	3,702	4,254
Depreciation	478,459	477,172
Total harbor	\$ 853,900	760,550

(continued)

CITY OF KING COVE, ALASKA

Harbor and Port Enterprise Fund

Schedule of Revenues, Expenses and Changes in
Net Position, Continued

	2016	2015
Operating expenses, continued:		
Port:		
Salaries	\$ 13,540	21,412
Employee benefits	4,550	8,651
Insurance	6,363	6,307
Total port	<u>24,453</u>	<u>36,370</u>
Total operating expenses	<u>878,353</u>	<u>796,920</u>
(Loss) from operations	(511,171)	(468,331)
Nonoperating revenues (expenses):		
Interest expense	(49,769)	(51,694)
Bond issuance costs	(700)	(700)
Loss on disposition of capital assets	-	(35,453)
Interest rate subsidy	6,901	16,904
State PERS relief	12,622	7,224
Net nonoperating revenues (expenses)	<u>(30,946)</u>	<u>(63,719)</u>
(Loss) before transfers	(542,117)	(532,050)
Other financing sources (uses):		
Transfers from (to) other funds:		
General Fund	386,748	85,400
Solid Waste Collection Special Revenue Fund	(20,000)	(20,000)
Total other financing sources (uses)	<u>366,748</u>	<u>65,400</u>
Change in net position	(175,369)	(466,650)
Net position, beginning, as previously stated	<u>14,292,029</u>	<u>14,978,279</u>
Cumulative effect of a change in accounting principle	-	(219,600)
Net position, beginning, restated	<u>14,292,029</u>	<u>14,758,679</u>
Ending net position	<u>\$ 14,116,660</u>	<u>14,292,029</u>

CITY OF KING COVE, ALASKA

Harbor and Port Enterprise Fund

Schedule of Cash Flows

Year Ended June 30, 2016
(With Comparative Amounts for 2015)

	2016	2015
Cash flows provided (used) by operating activities:		
Receipts from customers	\$ 365,572	324,471
Payments to suppliers	(109,720)	(103,340)
Payments to employees	(235,812)	(256,544)
Net cash flows provided (used) by operating activities	<u>20,040</u>	<u>(35,413)</u>
Cash flows provided (used) by noncapital financing activities:		
Increase in advance from other funds	(266,912)	56,863
Interest rate subsidy	6,901	16,904
Transfers in	386,748	85,400
Transfers out	(20,000)	(20,000)
Net cash flows provided (used) by noncapital financing activities	<u>106,737</u>	<u>139,167</u>
Cash flows provided (used) by capital and related financing activities:		
Bond issuance costs	(700)	(700)
Purchase of capital assets	(24,655)	-
Principal payments on long-term debt	(50,000)	(50,000)
Interest payments on long-term debt	(51,404)	(53,054)
Net cash flows provided (used) by capital and related financing activities	<u>(126,759)</u>	<u>(103,754)</u>
Net increase in cash and investments	18	-
Beginning cash and investments	<u>108,484</u>	<u>108,484</u>
Ending cash and investments	\$ <u><u>108,502</u></u>	<u><u>108,484</u></u>
Reconciliation of loss from operations to net cash provided (used) by operating activities:		
Loss from operations	\$ (511,171)	(468,331)
Adjustments to reconcile loss from operations to net cash flows from operating activities:		
Depreciation	478,459	477,172
Pension expense	52,746	7,224
(Increase) decrease in assets - accounts receivable (net)	(1,610)	(4,118)
Increase (decrease) in liabilities:		
Accounts payable	1,430	(7,818)
Accrued payroll and related liabilities	1,924	1,355
Accrued leave	(1,738)	96
Net cash flows provided (used) by operating activities	\$ <u><u>20,040</u></u>	<u><u>5,580</u></u>

CITY OF KING COVE, ALASKA

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2016

	Special Revenue Funds		Capital Project Funds		Total Nonmajor Governmental Funds
<u>Assets</u>	<u>Solid Waste Collection Fund</u>	<u>Permanent Fund</u>	<u>General Capital Projects</u>	<u>Vehicle and Machinery Replacement</u>	
Cash	\$ -	449,571	-	-	449,571
Accounts receivable	36,557	-	118,929	-	155,486
Due from other funds	32,913	748,339	-	67,465	848,717
Total assets	\$ 69,470	1,197,910	118,929	67,465	1,453,774
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	-	-	27,420	-	27,420
Accrued payroll and related liabilities	3,292	-	-	-	3,292
Due to other funds	-	-	65,881	-	65,881
Total liabilities	3,292	-	93,301	-	96,593
Fund balances:					
Comitted	-	1,197,910	-	-	1,197,910
Assigned:					
Solid waste collection	66,178	-	-	-	66,178
Vehicle and machinery replacement	-	-	-	67,465	67,465
General capital projects	-	-	25,628	-	25,628
Total fund balances	66,178	1,197,910	25,628	67,465	1,357,181
Total liabilities and fund balances	\$ 69,470	1,197,910	118,929	67,465	1,453,774

CITY OF KING COVE, ALASKA

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2016

	Special Revenue Funds		Capital Project Funds		Total Nonmajor Governmental Funds
	Solid Waste Collection	Permanent Fund	General Capital Projects	Vehicle and Machinery Replacement	
Revenues:					
Intergovernmental - state sources	\$ 2,356	-	138,205	-	140,561
Charges for services	128,646	-	-	-	128,646
Other	58	408	-	-	466
Total revenues	<u>131,060</u>	<u>408</u>	<u>138,205</u>	<u>-</u>	<u>269,673</u>
Expenditures:					
Public works	-	-	318,802	-	318,802
Solid waste	113,343	-	-	-	113,343
Debt service:					
Principal	-	-	-	15,624	15,624
Interest	-	-	-	6,085	6,085
Total expenditures	<u>113,343</u>	<u>-</u>	<u>318,802</u>	<u>21,709</u>	<u>453,854</u>
Excess (deficiency) of revenues over (under) expenditures	17,717	408	(180,597)	(21,709)	(184,181)
Other financing sources:					
Transfers in	<u>20,000</u>	<u>230,000</u>	<u>195,000</u>	<u>25,000</u>	<u>470,000</u>
Net change in fund balances	37,717	230,408	14,403	3,291	285,819
Beginning fund balances	<u>28,461</u>	<u>967,502</u>	<u>11,225</u>	<u>64,174</u>	<u>1,071,362</u>
Ending fund balances	<u>\$ 66,178</u>	<u>1,197,910</u>	<u>25,628</u>	<u>67,465</u>	<u>1,357,181</u>

CITY OF KING COVE, ALASKA

Solid Waste Collection Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and ActualYear Ended June 30, 2016
(With Comparative Amounts for 2015)

	2016			2015
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Actual</u>
Revenues:				
Local - charges for services:				
Collection fees	\$ 68,400	68,403	3	78,077
Collection fees - Peter Pan Seafood	49,507	60,243	10,736	12,976
Intergovernmental:				
State PERS relief	4,000	2,356	(1,644)	21,378
Other - finance charges	57	58	1	61
Total revenues	<u>121,964</u>	<u>131,060</u>	<u>9,096</u>	<u>112,492</u>
Expenditures:				
Solid waste:				
Salaries	70,000	69,166	834	67,347
Employee benefits	25,735	26,057	(322)	45,584
Supplies	10,000	4,418	5,582	6,334
Travel and per diem	-	570	(570)	-
Professional services	-	-	-	3,786
Dues and fees	575	-	-	-
Insurance	9,314	9,544	(230)	9,461
Fuel - diesel	3,500	3,198	302	3,585
Deferred compensation	500	390	110	390
Total expenditures	<u>119,624</u>	<u>113,343</u>	<u>5,706</u>	<u>136,487</u>
Excess of revenues over expenditures	2,340	17,717	14,802	(23,995)
Other financing sources - transfers in				
Harbor and Port Enterprise Fund	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Net change in fund balance	\$ <u>22,340</u>	37,717	<u>14,802</u>	(3,995)
Beginning fund balance		<u>28,461</u>		<u>32,456</u>
Ending fund balance		\$ <u>66,178</u>		<u>28,461</u>

CITY OF KING COVE, ALASKA

Housing and Community Projects Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in
Fund Balance (Deficit) - Budget and ActualYear Ended June 30, 2016
(With Comparative Amounts for 2015)

	2016			2015
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Actual</u>
Revenues:				
Charges for services:				
Housing rental	\$ -	-	-	18,000
Space rental	-	-	-	1,406
Equipment rental	-	-	-	21,096
Intergovernmental:				
State PERS relief	-	-	-	6,106
Other	-	-	-	2,597
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,205</u>
Expenditures - community services:				
Salaries	-	-	-	18,913
Employee benefits	-	-	-	12,573
Utilities - heat	-	-	-	8,102
Utilities - electric	-	-	-	5,327
Insurance	-	-	-	1,577
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,492</u>
Excess of revenues over expenditures	-	-	-	2,713
Other financing sources - transfers from:				
General Fund	-	-	-	81,806
Net change in deficit	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>84,519</u>
Beginning fund balance (deficit)		-		(84,519)
Ending fund balance		<u>\$ -</u>		<u>-</u>

CITY OF KING COVE, ALASKA

Permanent Fund Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and ActualYear Ended June 30, 2016
(With Comparative Amounts for 2015)

	2016			2015
	Budget	Actual	Variance	Actual
Revenues - investment income	\$ 200	408	208	44
Expenditures	-	-	-	-
Excess of revenues over expenditures	200	408	208	44
Other financing sources (uses):				
Transfers in:				
Electric Enterprise Fund	30,000	30,000	-	30,000
General Fund	200,000	200,000	-	-
Net other financing sources (uses)	230,000	230,000	-	30,000
Net change in fund balance	\$ 230,200	230,408	208	30,044
Beginning fund balance		967,502		937,458
Ending fund balance		\$ 1,197,910		967,502

CITY OF KING COVE, ALASKA

General Capital Projects Fund

Schedule of Revenues, Expenditures and Changes
In Fund Balance (Deficit)Year Ended June 30, 2016
(With Comparative Amounts for 2015)

	<u>2016</u>	<u>2015</u>
Revenues:		
Intergovernmental - State sources	\$ <u>138,205</u>	<u>7,698</u>
Expenditures - public works:		
Contractual	123,537	100,519
Planning and engineering	29,543	26,172
Supplies	154,291	45,068
Travel and training	11,431	2,500
Other	-	5,999
Total expenditures	<u>318,802</u>	<u>180,258</u>
Excess (deficiency) of revenues over expenditures	(180,597)	(172,560)
Other financing sources -		
Transfers in - General Fund	<u>195,000</u>	<u>210,478</u>
Net change in fund balance	14,403	37,918
Beginning fund balance (deficit)	<u>11,225</u>	<u>(26,693)</u>
Ending fund balance	\$ <u><u>25,628</u></u>	<u><u>11,225</u></u>

CITY OF KING COVE, ALASKA

Vehicle and Machinery Replacement Capital Project Fund

Schedule of Revenues, Expenditures and Changes
In Fund BalanceYear Ended June 30, 2016
With Comparative Amounts for 2015

	2016	2015
Revenues	\$ -	-
Expenditures - public works:		
Equipment	-	93,300
Debt service:		
Principal	15,624	35,567
Interest	6,085	10,510
Total expenditures	21,709	139,377
Excess (deficiency) of revenues over expenditures	(21,709)	(139,377)
Other financing sources:		
Proceeds from issuance of debt	-	69,700
Transfers in - General Fund	25,000	-
Total other financing sources	25,000	69,700
Net change in fund balance	3,291	(69,677)
Beginning fund balance	64,174	133,851
Ending fund balance	\$ 67,465	64,174

CITY OF KING COVE, ALASKA

City Fuel Internal Service Fund

Statement of Net Position

June 30, 2016

(With Comparative Amounts for 2015)

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Fuel inventory	\$ 123,712	97,317
Advances to other funds	-	36,861
Total current assets	<u>123,712</u>	<u>134,178</u>
Property, plant and equipment - fuel tanks	871,489	871,489
Less accumulated depreciation	<u>(348,592)</u>	<u>(305,018)</u>
Net property, plant and equipment	<u>522,897</u>	<u>566,471</u>
Total assets	<u>\$ 646,609</u>	<u>700,649</u>
<u>Liabilities and Net Position</u>		
Current liabilities:		
Accrued payroll and related liabilities	81	-
Loans payable	<u>20,159</u>	<u>170,595</u>
Total current liabilities	<u>20,240</u>	<u>170,595</u>
Noncurrent liabilities - advance from other funds	<u>69,944</u>	<u>-</u>
Total liabilities	<u>90,184</u>	<u>170,595</u>
Net position:		
Net investment in capital assets	522,897	566,471
Unrestricted (deficit)	<u>33,528</u>	<u>(36,417)</u>
Total net position	<u>556,425</u>	<u>530,054</u>
Total liabilities and net position	<u>\$ 646,609</u>	<u>700,649</u>

CITY OF KING COVE, ALASKA

City Fuel Internal Service Fund

Schedule of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2016
(With Comparative Amounts for 2015)

	<u>2016</u>	<u>2015</u>
Operating revenues - fuel sales	\$ <u>359,324</u>	<u>547,922</u>
Operating expenses:		
Salaries and benefits	20,606	23,463
Supplies	-	3,164
Fuel	298,834	548,743
Depreciation	<u>43,574</u>	<u>43,574</u>
Total operating expenses	<u>363,014</u>	<u>618,944</u>
Loss from operations	(3,690)	(71,022)
Other income (expense):		
Interest expense	<u>(4,356)</u>	<u>(3,397)</u>
Income (loss) before transfers	(8,046)	(74,419)
Other financing sources:		
Transfers in from General Fund	<u>34,417</u>	<u>74,419</u>
Change in net position	26,371	-
Beginning net position	<u>530,054</u>	<u>530,054</u>
Ending net position	\$ <u><u>556,425</u></u>	<u><u>530,054</u></u>

CITY OF KING COVE, ALASKA

City Fuel Internal Service Fund

Statement of Cash Flows

Year Ended June 30, 2016
(With Comparative Amounts for 2015)

	2016	2015
Cash flows from operating activities:		
Receipts from customers	\$ 359,324	547,922
Payments to suppliers	(325,229)	(308,287)
Payments to employees	(20,525)	(23,718)
Net cash flows from operating activities	<u>13,570</u>	<u>215,917</u>
Cash flows from noncapital financing activities:		
Advance from other funds	106,805	(457,534)
Fuel loan proceeds	(150,436)	170,595
Interest expense	(4,356)	(3,397)
Transfers in	34,417	74,419
Net cash flows from noncapital financing activities	<u>(13,570)</u>	<u>(215,917)</u>
Net increase in cash and investments	-	-
Beginning cash and cash equivalents	<u>-</u>	<u>-</u>
Ending cash and cash equivalents	\$ <u><u>-</u></u>	<u><u>-</u></u>
Reconciliation of loss from operations to net cash provided (used) by operating activities:		
Loss from operations	\$ (3,690)	(71,022)
Adjustments to reconcile loss from operations to net cash flows from operating activities:		
Depreciation	43,574	43,574
(Increase) decrease in assets - fuel inventory	(26,395)	243,620
Increase (decrease) in liabilities:		
Accrued payroll and related liabilities	81	(255)
Net cash flows from operating activities	\$ <u><u>13,570</u></u>	<u><u>215,917</u></u>

CITY OF KING COVE

Schedule of State Financial Assistance

Year Ended June 30, 2016

<u>Grant Title</u>	<u>Grant Number</u>	<u>Total Grant Award</u>	<u>Expenditures</u>
Department of Commerce, Community and Economic Development:			
* Community Revenue Sharing	None	\$ 132,800	132,800
* Landfill Incinerator	13-DC-395	575,000	138,205
Liquor License	None	2,500	2,500
Raw Fish	None	33,713	33,713
		<u>744,013</u>	<u>307,218</u>
Alaska Energy Authority -			
* Waterfall Creek Hydroelectric	7060929	<u>2,600,000</u>	<u>2,549,596</u>
Department of Revenue -			
* Raw Fish	None	<u>404,385</u>	<u>404,385</u>
Department of Administration -			
PERS Supplement Employer Relief Fund	None	<u>64,272</u>	<u>64,272</u>
Total State Financial Assistance		\$ <u><u>3,812,670</u></u>	<u><u>3,325,471</u></u>
Reconciliation from State Financial Assistance to State of Alaska revenues, Exhibit D-1:			
Above expenditures, per schedule		\$ 3,325,471	
Add: Power Cost Equalization, General Fund and Water and Sewer		21,842	
Less: Intergovernmental, Enterprise Funds		(27,889)	
Less: Port Facility Enterprise Fund Grant revenue		<u>(2,549,596)</u>	
Total State of Alaska revenue Exhibit D-1		\$ <u><u>769,828</u></u>	

See accompanying notes to the schedule

CITY OF KING COVE, ALASKA

Notes to Schedule of State Financial Assistance

Year ended June 30, 2016

Note 1. Basis of Presentation

The accompanying schedule of state financial assistance (the "Schedule") includes the state award activity of the City under programs of the State of Alaska for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the basic financial statements of the City.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements.

Note 3. Subrecipients

No state funds were passed through to Subrecipients.

Note 4. Major Programs

* denotes a major program for compliance audit purposes.

COMPLIANCE REPORT

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditor's Report

Members of the City Council
City of King Cove
King Cove, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of King Cove, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of King Cove's basic financial statements, and have issued our report thereon dated March 16, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2016-002, 2016-003, 2016-004, and 2016-005 to be material weaknesses.

Members of the City Council
City of King Cove

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as Finding 2016-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of King Cove's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

The City of King Cove's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The City of King Cove's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Anchorage, Alaska
March 16, 2017

Report on Compliance For Each Major State Program and Report on Internal Control Over Compliance as Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Independent Auditor's Report

Members of the City Council
City of King Cove
King Cove, Alaska

Report on Compliance for Each Major State Program

We have audited the City of King Cove's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of the City of King Cove's major state programs for the year ended June 30, 2016. City of King Cove's major state programs are identified in the accompanying schedule of state financial assistance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of King Cove's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the City of King Cove's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the City of King Cove's compliance.

Basis for Qualified Opinion on Waterfall Creek Hydroelectric Project and Landfill Incinerator

As described in the accompanying schedule of findings and questioned costs, City of King Cove did not comply with requirements regarding allowable costs and procurement as described in Findings 2016-006, 2016-008, and 2016-009. Compliance with such requirements is necessary, in our opinion, for City of King Cove to comply with the requirements applicable to those programs.

Qualified Opinion on Waterfall Creek Hydroelectric Project and Landfill Incinerator

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of King Cove complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Waterfall Creek Hydroelectric Project and Landfill Incinerator for the year ended June 30, 2016.

Unmodified Opinion on Each of the Other Major State Programs

In our opinion, the City of King Cove complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major state programs identified in the schedule of state financial assistance for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed another instance of noncompliance, which is required to be reported in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and which is described in the accompanying schedule of findings and questioned costs as Finding 2016-007. Our opinion on each major state program is not modified with respect to this matter.

The City of King Cove's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The City of King Cove's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of City of King Cove is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of King Cove's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of King Cove's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2016-006, 2016-008 and 2016-009 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2016-007 to be a significant deficiency.

City of King Cove's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. City of King Cove's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of State of Alaska Audit Guide and Compliance Supplement for State Single Audits. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Altman, Rogers & Co.".

Anchorage, Alaska
March 16, 2017

CITY OF KING COVE, ALASKA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> X </u>	Yes	<u> </u> No
Significant deficiency(ies) identified?	<u> X </u>	Yes	<u> </u> None reported
Noncompliance material to financial statements?	<u> </u>	Yes	<u> X </u> No

State Financial Assistance

Type of auditor’s report issued on compliance for major programs:	
Community Revenue Sharing	<u>Unmodified</u>
Landfill Incinerator	<u>Qualified</u>
Waterfall Creek Hydroelectric	<u>Qualified</u>
Raw Fish	<u>Unmodified</u>

<u>Internal control over major programs:</u>			
Material weakness(es) identified?	<u> X </u>	Yes	<u> </u> No
Significant deficiency(ies) identified?	<u> X </u>	Yes	<u> </u> None reported

Dollar threshold used to distinguish a state major program:	\$	<u>75,000</u>
---	----	---------------

CITY OF KING COVE, ALASKA

Schedule of Findings and Questioned Costs, Continued

Section II – Financial Statement Findings

Finding 2016-001

Internal Controls over Cash Disbursements

Significant Deficiency

Condition:	During our testing of internal controls over cash disbursements we noted several transactions which were incorrectly coded. Several ACH transactions were missing written approval and documentation of coding. One check was also missing documentation of approval or coding as it was approved over the phone.
Criteria:	All transactions should be reviewed and approved by the appropriate level of management and have proper coding in the general ledger.
Context:	We tested 40 cash disbursement transactions and noted 3 transactions without proper approval or coding.
Cause:	A lack of a written fiscal policy has caused inconsistency in the approval and coding process.
Effect:	Errors may not be prevented or detected in a timely manner which could allow unauthorized disbursements or improper recording in the general ledger.
Recommendation:	We recommend that the City adopt a fiscal policy and that they include both a written approval and coding on each transaction, including particularly those pertaining to ACH payments.
Management Response:	See Corrective Action Plan

Finding 2016-002

Internal Controls over Coding Grant Expenditures

Material Weakness

Condition:	During our testing over material checks, an invoice for equipment was incorrectly coded to supplies for the landfill upgrade grant.
Criteria:	The coding for grants should be correct so that they are receiving revenue for agreed upon budget amounts in the award.
Context:	We tested all material checks and noted one error where an invoice was approved to be coded to the wrong account.

CITY OF KING COVE, ALASKA

Schedule of Findings and Questioned Costs, Continued

Cause:	Management coded the equipment expenditure to the grant under supplies in order to make it conform to budget line items.
Effect:	Expenditures may be reimbursed with grant money that is not allowable under the grant award.
Recommendation:	All grant expenditures should be properly coded in the general ledger.
Management Response:	See Corrective Action Plan.

Finding 2016-003

Internal Controls over Payroll

Material Weakness

Condition:	The majority of personnel files did not contain up-to-date authorized pay rates and several employees did not have a W-4 or I-9.
Criteria:	Each employee should have up-to-date personnel files including an authorized pay rate, I-9, and W-4, regardless of position.
Context:	We tested 40 payroll transactions and noted 25 transactions without proper authorized pay rates or a W-4 or I-9 on file.
Cause:	There is no written fiscal policy, and thus a lack of a review process and procedures pertaining to the upkeep of employee records.
Effect:	There is a risk of hiring someone who is not permitted to work for the city, as well as potentially paying ghost employees.
Recommendation:	We recommend that the personnel files are reviewed in order to ensure all required paperwork is accounted for.
Management Response:	See Corrective Action Plan

Finding 2016-004

Internal Controls over Credit Cards

Material Weakness

Condition:	During our testing of internal controls we noted that credit cards did not have supporting documentation and lacked a secure approval process for coding. Additionally we noted two charges which were miscoded, one which did not have any backup documentation with coding to examine.
-------------------	--

CITY OF KING COVE, ALASKA

Schedule of Findings and Questioned Costs, Continued

Criteria:	For each credit card statement there should be a receipt attached to support every charge made. They should also include the general ledger coding and the appropriate written approval on each receipt.
Context:	We tested two credit card statements and found two transactions that were improperly coded or lacked supporting documentation.
Cause:	There is a lack of fiscal policies, and in turn a lack of internal controls relating to credit cards.
Effect:	Errors may not be prevented or detected in a timely manner which could allow unauthorized disbursements or improper recording in the general ledger.
Recommendation:	All transactions should be accompanied by adequate supporting documentation, general ledger coding, and indicate the individual(s) approving the disbursements and coding.
Management Response:	See Corrective Action Plan.

Finding 2016-005

Internal Control over General Journal Entries

Material Weakness

Condition:	During the audit we noted that general journal entries were not accompanied by supporting documentation and there is no written policies and procedures for recording journal entries in the general ledger.
Criteria:	All general journal entries should be accompanied by adequate supporting documentation. There should be written policies and procedures in place for entering and approving journal entries.
Context:	All journal entries lacked supporting documentation. There are also no written policies and procedures in place over journal entries.
Cause:	There are no written policies and procedures in place.
Effect:	Journal entries could be entered that are incorrect.
Recommendation:	Written policy and procedures should be made for the City.
Management Response:	See Corrective Action Plan.

CITY OF KING COVE, ALASKA

Schedule of Findings and Questioned Costs, Continued

Section III – State Award Findings and Questioned Costs

Finding 2016-006

Internal Control over Cash Disbursements and Allowable Costs

**Material Weakness/
Material Non-Compliance**

<u>State Award Programs</u>	<u>Agency</u>	<u>Grant #</u>	<u>Program</u>	<u>Award Year</u>
	AEA	7060929	Waterfall Creek Hydroelectric Project	2016
	DCCED	13-DC-395	Landfill Incinerator	2013

Condition: During our testing of transactions charged to these programs we noted 13 transactions that did not have proper approval and an additional two transactions had improper coding.

Criteria: During our test of internal controls over cash disbursements we found numerous transactions with either improper coding or lack of authorization.

Questioned Costs: None noted.

Context: We tested all individually significant transactions for the Waterfall Creek Hydroelectric Project and the Landfill Incinerator project and noted 13 transactions that lacked proper approval and two transactions that had improper coding.

Cause: No written policies or procedures are in place for internal controls over cash disbursements.

Effect: Transactions could be made without approval, and incorrect general ledger coding could misstate expenditure accounts or cause expenditures to be applied to grants that are unallowed.

Recommendation: Implement proper policies and procedures over cash disbursements.

Management Response: See Corrective Action Plan.

CITY OF KING COVE, ALASKA

Schedule of Findings and Questioned Costs, Continued

Finding 2016-007

Internal Controls over Reporting

**Significant Deficiency/
Non-Compliance**

State Award Programs	<u>Agency</u>	<u>Grant #</u>	<u>Program</u>	<u>Award</u>
				<u>Year</u>
			Waterfall Creek	
	AEA	7060929	Hydroelectric Project	2016

Condition: We were unable to determine the accuracy of the reports submitted to AEA due to lack of supporting documentation for reports and a lack of consistency between what is recorded in the general ledger and what is submitted in the reports to AEA.

Criteria: Reports do not have proper backup for the expenditures reported and do not agree to the general ledger. There is no clear policy or procedure for verifying that the expenditures coded in the G/L match what is being reported to the granting agency.

Questioned Costs: None noted

Context: We tested two quarterly reports as part of our compliance testing and noted errors over internal controls.

Cause: Lack of communication between management in the two separate office locations creates a discrepancy between what is coded in the general ledger and what is reported to the granting agency.

Effect: Lack of internal control over reporting could lead to incorrect information being reported to the granting agency. Repeated errors could lead to a reduction of grand funding in future years.

Recommendation: Implement proper internal controls over reporting and maintain proper backup of what is submitted to AEA.

Management Response: See Corrective Action Plan.

CITY OF KING COVE, ALASKA

Schedule of Findings and Questioned Costs, Continued

Finding 2016-008

Internal Controls over Procurement Policies

Material Weakness/

Material Non-Compliance

<u>State Award Programs</u>	<u>Agency</u>	<u>Grant #</u>	<u>Program</u>	<u>Award Year</u>
	AEA	7060929	Waterfall Creek Hydroelectric Project	2016
	DCCED	13-DC-395	Landfill Incinerator	2013

Condition: The City initiated contractors for projects funded by State grants without going through procurement procedures. The City also failed to document any communication that informed the contractor that the project is subject to prevailing rates of wages requirement for a Public Contract.

Criteria: We obtained a list of all contracts managed by the City that were funded through the State of Alaska. There was not adequate procurement over these contracts.

Questioned Costs: None noted.

Context: Per grant agreement, projects are constrained by the provisions of AS 36. Public contracts are subject to the requirement that the grantee require any contract to pay the current prevailing rate of wages as required. Per AS 36.30.850 (b), only those grants for which the State furnishes the property, whether real or personal, designated by law, including an appropriation Act, are exempt from the procurement code.

Cause: Lack of written policies and procedures for procurement.

Effect: Contracts could be awarded at a substantially greater cost than necessary, or unqualified contractors hired.

Recommendation: Implement procurement policies.

Management Response: See Corrective Action Plan.

CITY OF KING COVE, ALASKA

Schedule of Findings and Questioned Costs, Continued

Finding 2016-009

Internal Controls over Coding Grant Expenditures

**Material Weakness/
Material Noncompliance**

<u>State Award Programs</u>	<u>Agency</u>	<u>Grant #</u>	<u>Program</u>	<u>Award Year</u>
	DCCED	13-DC-395	Landfill Incinerator	2013

Condition: During our testing over material checks, an invoice for equipment was incorrectly coded to supplies.

Criteria: The coding for grants should be correct so that they are receiving revenue for agreed upon budget amounts in the award.

Questioned Costs: None noted.

Context: We tested all material checks and noted one error where an invoice was approved to be coded to the wrong account.

Cause: Management coded the equipment expenditure to the grant under supplies in order to make it conform to budget line items.

Effect: Expenditures may be reimbursed with grant money that is not allowable under the grant award.

Recommendation: All grant expenditures should be properly coded in the general ledger.

Management Response: See Corrective Action Plan.

Section III – Status of Prior Year Findings

Finding 2015-001

Internal Controls over Cash Disbursements

Condition: During our testing of internal controls over cash disbursements we noted multiple transactions lacking proper documentation of approval and review of general ledger coding. Additionally we noted that no support is maintained for credit card transactions or review of general ledger coding.

Status: This finding was repeated in FY16 as Finding 2016-001 and Finding 2016-006

CITY OF KING COVE, ALASKA

Schedule of Findings and Questioned Costs, Continued

Finding 2015-002

Internal Controls over General Journal Entries

Material weakness

Condition:

During the audit we noted that general journal entries were not accompanied by supporting documentation and there is no approval process for recording journal entries in the general ledger.

Status:

This finding is repeated in FY16 as Finding 2016-005.



3380 C Street, Suite 205
Anchorage, AK 99503
P (907) 274-7573 F (907) 777-1648
amberj@kingcoveak.org

Financial Statement Findings

Finding 2016-001

Internal Controls over Cash Disbursements

Name of Contact: Amber Jusefowytch

Corrective Action Plan: All ACF transactions will be coded.

Proposed Completion Date: Immediately.

Finding 2016-002

Internal Controls over Coding Grant Expenditures

Name of Contact: Amber Jusefowytch

Corrective Action Plan: Budget line item categories will be added to accurately reflect grant budgets.

Proposed Completion Date: Immediately.

Finding 2016-003

Internal Controls over Payroll

Name of Contact: Kim Newman

Corrective Action Plan: Personnel files will be updated to reflect current rate of pay. W-4 and I-9 will be collected from each employee who is missing one in his/her file.

Proposed Completion Date: Immediately.

Finding 2016-004

Internal Controls over Credit Cards

Name of Contact: Amber Jusefowytch

Corrective Action Plan: Credit card receipts will be filed with statements. Statement are coded.

Proposed Completion Date: Immediately.

CITY OF KING COVE, ALASKA

Corrective Action Plan, Continued

Finding 2016-005

Internal Controls over General Journal Entries

Name of Contact: Amber Jusefowytch

Corrective Action Plan: Journal entries are approve monthly and filed.

Proposed Completion Date: Immediately.

State Award Findings

Finding 2016-006

Internal Control over Cash Disbursements Allowable Costs

**Material Weakness/
Material Non-Compliance**

<u>State Award Programs</u>	<u>Agency</u>	<u>Grant #</u>	<u>Program</u>	<u>Award Year</u>
	AEA	7060929	Waterfall Creek Hydroelectric Project	2016
	DCCED	13-DC-395	Landfill Incinerator	2013

Name of Contact: Amber Jusefowytch

Corrective Action Plan: Grant expenses to be reviewed by project staff in addition to finance staff to assure correct coding.

Proposed Completion Date: Immediately.

Finding 2016-007

Internal Controls over Reporting

**Significant Deficiency/
Non-Compliance**

<u>State Award Programs</u>	<u>Agency</u>	<u>Grant #</u>	<u>Program</u>	<u>Award Year</u>
			Waterfall Creek	
	AEA	7060929	Hydroelectric Project	2016

Name of Contact: Amber Jusefowytch

Corrective Action Plan: Miscoded items will be journal entried to correct grant funds.

Proposed Completion Date: Immediately.

CITY OF KING COVE, ALASKA

Corrective Action Plan, Continued

Finding 2016-008

Internal Controls over Procurement Policies

Material Weakness/

Material Non-Compliance

<u>State Award Programs</u>	<u>Agency</u>	<u>Grant #</u>	<u>Program</u>	<u>Award Year</u>
	AEA	7060929	Waterfall Creek Hydroelectric Project	2016
	DCCED	13-DC-395	Landfill Incinerator	2013

Name of Contact: Amber Jusefowytch

Corrective Action Plan: Contractors required to pay prevailing wages will be notified that these contracts are constrained by AS 36.

Proposed Completion Date: Immediately.

Finding 2016-009

Internal Controls over Coding Grant Expenditures

Material Weakness/

Material Noncompliance

<u>State Award Programs</u>	<u>Agency</u>	<u>Grant #</u>	<u>Program</u>	<u>Award Year</u>
	DCCED	13-DC-395	Landfill Incinerator	2013

Name of Contact: Amber Jusefowytch

Corrective Action Plan: Budget line item categories will be added to accurately reflect grant budgets.

Proposed Completion Date: Immediately.